

**ALPENA-MONTMORENCY-ALCONA
EDUCATIONAL SERVICE DISTRICT**

Audited Financial Statements And
Other Supplementary Financial Information

Year Ended June 30, 2008

STRALEY, ILSLEY & LAMP P.C.

**ALPENA – MONTMORENCY – ALCONA
EDUCATIONAL SERVICE DISTRICT**

2118 US 23 South
Alpena, Michigan 49707
(989) 354-3101

BOARD OF EDUCATION

John Pines Jr.

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Anthony Suszek

EXECUTIVE SECRETARY

Donna Meyer

INDEPENDENT AUDITORS..... Straley, Ilsley & Lamp P.C.

LEGAL COUNSEL..... Thrun Law Firm, P.C.

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Certified Public Accountants

PHILIP T. STRALEY, C.P.A.
ROBERT D. ILSLEY, C.P.A.
BERNARD R. LAMP, C.P.A.
TERRENCE D. YULE, C.P.A.
MARK L. SANDULA, C.P.A.
JAMES E. KRAENZLEIN, C.P.A./A.B.V., C.V.A.
DONALD C. LEVREN

-1-
STRALEY, ILSLEY & LAMP P.C.

2106 U.S. 23 SOUTH, P.O. BOX 738
ALPENA, MICHIGAN 49707
TELEPHONE (989) 356-4531
FACSIMILE (989) 356-0494

TAX, AUDIT AND BUSINESS CONSULTANTS

RETIRE
GORDON A. NETHERCUT, C.P.A.
CARL F. REITZ, C.P.A.
WARREN W. YOUNG, C.P.A.

INDEPENDENT AUDITOR'S REPORT

To the Board of Education

Alpena-Montmorency-Alcona Educational Service District
Alpena, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **Alpena-Montmorency-Alcona Educational Service District**, as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the **Alpena-Montmorency-Alcona Educational Service District's management**. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the **Alpena-Montmorency-Alcona Educational Service District** as of June 30, 2008 and the respective changes in financial position, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 2, 2008, on our consideration of the **Alpena-Montmorency-Alcona Educational Service District's** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Required Supplemental Information

The Management's discussion and analysis and the required supplementary information identified in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Individual Fund Financial Statements and Other Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the **Alpena-Montmorency-Alcona Educational Service District's** basic financial statements. The additional information identified in the table of contents as individual fund financial statements and other supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements. This additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Straley, Ilsley & Lamp P.C.

October 2, 2008

Alpena-Montmorency-Alcona Educational Service District Management's Discussion and Analysis

The following is management's discussion and analysis of the financial position and results of operations for the fiscal year ended June 30, 2008. Please read it in conjunction with the financial statements and related footnotes, which follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Alpena-Montmorency-Alcona Educational Service District financially as a whole. The *Government-Wide Financial Statements* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. The fund financial statements look at the School District's governmental funds. The remaining statement, the statement of fiduciary net assets, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents. The annual report is arranged as follows:

Management's Discussion and Analysis (MD&A)
(Required Supplemental Information)

Basic Financial Statements

Government-Wide Financial Statements

Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplemental Information)

Budgetary information for General Fund,
and Special Education Fund

Other Supplemental Information

Combining Statements – Nonmajor Funds

Individual Fund Statements

Federal Financial Assistance

Reporting the School District as a Whole – Government-wide Financial Statements

The statement of net assets and the statement of activities, which appear first in the School District's financial statements, report information about the School District as a whole using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. The statement of net assets includes all of the School District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

Alpena-Montmorency-Alcona Educational Service District Management's Discussion and Analysis

These two statements report the School District's net assets and how they have changed. Net assets – the difference between assets and liabilities, as reported in the statement of net assets – is one way to measure the School District's financial health, or position. Over time, increases or decreases in the School District's net assets – as reported in the statement of activities – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. The School District's goal is to provide ongoing programs and services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the schools to assess the overall health of the Alpena-Montmorency-Alcona Educational Service District.

The statement of net assets and statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, support services, community services, food services and interdistrict transfers. Property taxes, state aid and state and federal grants finance most of these activities.

Reporting the School District's Most Significant Funds – Fund Financial Statements

The School District's fund financial statements provide detailed information about the most significant funds – not the School District as a whole. Some funds are required to be established by state law and by bond covenants. However, the School District may establish other funds to help it control and manage money for a particular purpose (the Special Education and School Lunch funds are examples) or to show that it is meeting its legal responsibilities for using certain taxes, grants, or other money. The governmental funds of the School District use the following accounting approach:

Governmental Funds – All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can be readily converted to cash.

The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you to determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in reconciliation.

The School District as Trustee – Reporting the School District's Fiduciary Responsibilities

The School District is a trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in separate statements of fiduciary net assets. We excluded these activities from the School District's other financial statement because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

Alpena-Montmorency-Alcona Educational Service District Management's Discussion and Analysis

The School District as a Whole

Recall that the statement of net assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets as of June 30, 2008 and 2007:

<u>TABLE 1</u>	<u>2008</u>	<u>2007</u>
ASSETS		
Current and Other Assets	\$ 4,723,460	\$ 4,655,057
Property and Equipment	<u>1,586,221</u>	<u>1,569,976</u>
Total Assets	<u>\$ 6,309,681</u>	<u>\$ 6,225,033</u>
LIABILITIES		
Current Liabilities	\$ 900,280	\$ 802,444
Long-Term Liabilities	<u>128,648</u>	<u>148,861</u>
Total Liabilities	<u>\$ 1,028,928</u>	<u>\$ 951,305</u>
NET ASSETS		
Invested in property and equipment – net of related debt	\$ 1,586,221	\$ 1,569,976
Unrestricted	<u>3,694,532</u>	<u>3,703,752</u>
Total Net Assets	<u>\$ 5,280,753</u>	<u>\$ 5,273,728</u>

The above analysis focuses on the net assets. The change in net assets (see Table 2) of the School District's governmental activities is discussed below. The School District's net assets were \$5,280,753 at June 30, 2008. Capital assets, net of related debt totals \$1,586,221 and compares the original cost, less depreciation of the School District's capital assets to long-term debt used to finance the acquisition of those assets. The remaining amount of the net assets \$3,694,532 was unrestricted.

The \$3,694,532 in unrestricted net assets of governmental activities represents the *accumulated* results of all past years' operations. The unrestricted net assets balance enables the School District to meet working capital and cash flow requirements as well as provide for future uncertainties. The operating results of the General and Special Education Funds will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the governmental activities of the School District as a whole are reported in the statement of activities (see Table 2), which shows the changes in net assets for fiscal year 2008 as compared to 2007.

**Alpena-Montmorency-Alcona Educational Service District
Management's Discussion and Analysis**

TABLE 2	<u>2008</u>	<u>2007</u>
Revenue		
Program revenue:		
Charges for services	\$ 363,488	\$ 348,957
Operating grants	2,114,884	2,659,804
General revenue:		
Property taxes	4,078,153	3,797,419
State aid	1,840,930	1,782,662
Investment Earnings	194,529	218,641
Miscellaneous	<u>20,303</u>	<u>11,633</u>
Total revenue	<u>\$ 8,612,287</u>	<u>\$ 8,819,116</u>
Functions/Program Expenses		
Instruction	\$ 1,431,908	\$ 1,539,585
Support services	5,694,338	5,549,680
Community services	15,365	10,733
Food services	78,247	65,371
Interest on long-term debt	-	-
Interdistrict Transfers	1,265,062	1,459,417
Depreciation (unallocated)	<u>120,342</u>	<u>125,042</u>
Total expenses	<u>8,605,262</u>	<u>8,749,828</u>
Increase (Decrease) in Net Assets	<u>\$ 7,025</u>	<u>\$ 69,288</u>

As reported in the statement of activities, the cost of all of our *governmental* activities this year was \$8,605,262. Certain activities were partially funded from those who benefited from the programs \$363,488 or by other governments and organizations that subsidized certain programs with grants and contributions \$2,114,884. We paid for the remaining "public benefit" portion of our governmental activities with \$4,078,153 in taxes, \$1,840,930 in state aid and with our other revenues of \$214,832 (i.e., interest and other general revenue).

The School District experienced an increase in net assets of \$7,025. The key reasons for this increase were a decrease from fund operations of \$82,767 and a decrease in long-term debt of \$73,547. During the year, the District had capital additions of \$138,869, offset by depreciation expense of \$120,342.

As discussed above, the net cost shows the financial burden that was placed on the State and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted State aid constitute a major part of School District operating revenue sources, the Board of Education and Administration must annually evaluate the needs of the School District and balance those needs with State-prescribed available unrestricted resources. The School District must also evaluate yearly the effect of operating grants, which can vary widely and the District must be flexible enough to add or delete those programs affected.

Alpena-Montmorency-Alcona Educational Service District Management's Discussion and Analysis

The School District's Funds

As we noted earlier, the School District uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the School District is being accountable for the resources taxpayers and others provide and may provide more insight into the School District's overall financial health. As the School District completed this year, the governmental funds reported a combined fund balance of \$3,843,393, which is a decrease of \$82,767 from last year. The primary reason for the decrease is the added services of a Literacy Consultant, Accountant, and Technology Assistant plus a number of one-time expenses including a retirement severance package, Superintendent search costs, strategic planning costs, and capital outlay costs (carpet, conference room dividers, copiers, vans). These costs were offset in part by a ten-year approved millage renewal and Headlee rollback restoration.

The General Fund balance available to fund general operations costs for administrative and support services remains stable at \$829,042 a decrease of \$264,528 from the prior year. As noted above, many of the 2007-08 costs are one-time expenditures.

The Special Education Fund which exists to support mandated Special Education Programs shows a fund balance of \$3,014,253, an increase of \$184,804 from the prior year. This balance includes \$273,168 from Medicaid Outreach revenue which is subject to back-casting by the U.S. government (\$222,149 Board designated and \$51,019 added in 2007-08).

The Food Service fund remains in a positive position with a fund balance of \$98.

Budgetary Highlights

Over the course of the year, the School District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was adopted June 12, 2008. (A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements).

A large portion of School District funding is in the form of state and federal grants. It is common to receive notification of grant awards subsequent to the adoption of the original budget. Grant awards vary significantly from original estimates. These grant awards were one of the main reasons to necessitate budget amendments throughout the 2007-2008 fiscal year. The unexpected retirement and related costs of the District Superintendent was the other.

Capital Assets and Debt Administration

Capital Assets

At June 30, 2008, the School District had \$1,586,221 invested in a broad range of capital assets, including land, buildings, furniture and equipment, and vehicles. This amount represents a net increase (including additions, deductions, and depreciation) of approximately \$16,245 from last year.

**Alpena-Montmorency-Alcona Educational Service District
Management's Discussion and Analysis**

	<u>2008</u>	<u>2007</u>
Assets not being depreciated – Land	\$ 152,248	\$ 152,248
Land Improvements	136,460	136,460
Buildings improvements	2,165,299	2,125,900
Office and Computer equipment	989,617	951,291
Vehicles	<u>74,320</u>	<u>36,120</u>
 Total capital assets	 3,517,944	 3,402,019
 Less accumulated depreciation	 <u>(1,931,723)</u>	 <u>(1,832,043)</u>
 Net capital assets	 <u>\$ 1,586,221</u>	 <u>\$ 1,569,976</u>

This year's additions included vehicle purchases for Pied Piper Opportunity Center, site improvements (carpeting and conference room dividers) along with electrical improvements at Sprinkler Lake Education Center. We present more detailed information about our capital assets in the notes to the financial statements. No new debt was issued for these additions.

Debt

At the end of this year, the School District had \$148,861 in outstanding bonded debt which did not change from the previous year.

Other obligations for the 2007/2008 fiscal year would include compensated absences of which the balance was \$0. More detailed information about our long-term liabilities is contained in the notes to the financial statements.

Economic Factors and Next Year's Budgets and Rates

Our Board of Education and administration consider many factors when setting the School District's 2008-09 fiscal year budget. The 2008-09 fiscal year budget was adopted in June, 2008 based on property tax and state and federal revenue estimates available at that time. The new Intermediate School District (ISD) reform legislation required our constituent Boards of Education to adopt a resolution offering support for, or opposition to (disapproval) the ISD's proposed General Fund Budget. In addition, local boards could offer specific written suggestions or objections to the budget. These resolutions and suggestions were taken into consideration when adopting the 2008-09 fiscal year budget.

Intermediate School District's do not rely on state funding as heavily as do local school districts. Funding is much more balanced between property taxes, state aid, and federal grants. Under state law, the School District cannot access additional property taxes for operations without a vote by the electorate. As a result, local funding increases are limited. The District did receive approval by the electorate in May, 2007 for a Headlee override and a ten year millage renewal in the Special Education Fund. This funding is the foundation to provide stability to the Special Education Programs. The School District's reliance of state and federal funding is based on the economic health of each. The state periodically holds a revenue estimating conference to estimate revenues. Based on reports from state sources, the

Alpena-Montmorency-Alcona Educational Service District Management's Discussion and Analysis

revenue outlook in 2008-09 will slightly increase over previous years, but the outlook for federal sources includes the loss or decrease of grant resources. Once all grants, pupil counts, and state aid calculations are received, state law requires the School District to amend the budget if actual resources are not sufficient to fund original appropriations.

The School District's fiscal management approach reflects both its mission and long standing practice of implementing programs and services in collaboration with constituent local school districts and other local and regional partners. Some of these programs include:

- Center Based Special Education Programs
- Special Education Pupil Support Services
- General Education Instructional Support Services

Service priorities for the new fiscal year include: increased commitment to student achievement with additions to curriculum specialists, intervening services along with continued support of General Education State Assessment Test Preparation Programs, Sprinkler Lake Math/Science Center, Student Behavior Programs and Professional Development Activities covering all curricular areas and Administrative/Business support.

Contacting the School District's Financial Management

This financial report is designed to provide the School District's citizens, taxpayers, customers, investors, and creditors with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Business Office at 2118 US 23 South, Alpena, Michigan 49707.

Alpena-Montmorency-Alcona Educational Service District

STATEMENT OF NET ASSETS

June 30, 2008

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 2,168
Taxes receivable	35,522
Accounts receivable	6,026
Due from other governmental units	1,027,319
Interest receivable on investments and deposits	527
Investments	3,649,711
Other current assets	<u>2,187</u>
Total Current Assets	<u>4,723,460</u>

NON-CURRENT ASSETS

Capital Assets	3,517,944
Less: accumulated depreciation	<u>(1,931,723)</u>
Total Non-Current Assets	<u>1,586,221</u>

TOTAL ASSETS	<u><u>\$ 6,309,681</u></u>
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LIABILITIES

CURRENT LIABILITIES

Accounts payable	\$ 56,249
Due to other governmental units	45,153
Accrued expenditures	225,021
Salaries payable	501,191
Deferred revenue	52,453
Current portion of long-term debt	<u>20,213</u>
Total Current Liabilities	<u>900,280</u>

NON-CURRENT LIABILITIES

Non-current portion of long-term debt	<u>128,648</u>
TOTAL LIABILITIES	<u>1,028,928</u>

NET ASSETS

Investment in capital assets, net of related debt	1,586,221
Unrestricted	
Undesignated	<u>3,694,532</u>
TOTAL NET ASSETS	<u><u>\$ 5,280,753</u></u>

The accompanying notes to financial statements are an integral part of this statement.

Alpena-Montmorency-Alcona Educational Service District

STATEMENT OF ACTIVITIES

Year ended June 30, 2008

		Program Revenues		Net (Expense)
	Expenses	Charges for Services	Operating Grants	Revenue and Changes in Net Assets
FUNCTION / PROGRAMS				
Instruction	\$ 1,431,908	\$ 36,682	\$ 147,762	\$ (1,247,464)
Supporting services	5,694,338	310,630	1,899,759	(3,483,949)
Community services	15,365	8,798	48,537	41,970
Food services	78,247	7,378	18,826	(52,043)
Interdistrict transfers	1,265,062	-	-	(1,265,062)
Depreciation - unallocated	120,342	-	-	(120,342)
Total Governmental Activities	8,605,262	363,488	2,114,884	(6,126,890)
General Revenues:				
Property taxes, for general purposes				398,812
Property taxes, for special education				3,679,341
State aid				1,840,930
Investment earnings				194,529
Miscellaneous				20,303
Total General Revenues				6,133,915
Change in Net Assets				7,025
Net Assets - Beginning of the year				5,273,728
Net Assets - End of the year				\$ 5,280,753

The accompanying notes to financial statements are an integral part of this statement.

Alpena-Montmorency-Alcona Educational Service District

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2008

	General	Special Education	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 394	\$ 444	\$ 1,330	\$ 2,168
Taxes receivable	4,132	31,390	-	35,522
Accounts receivable	5,493	533	-	6,026
Due from other funds	-	209,655	-	209,655
Due from other governmental units	280,756	745,736	827	1,027,319
Interest receivable on investments and deposits	449	78	-	527
Investments	885,774	2,763,937	-	3,649,711
Other current assets	1,051	1,136	-	2,187
Total assets	<u>\$ 1,178,049</u>	<u>\$ 3,752,909</u>	<u>\$ 2,157</u>	<u>\$ 4,933,115</u>
LIABILITIES AND EQUITIES				
Accounts payable	\$ 33,134	\$ 23,052	\$ 63	\$ 56,249
Due to other funds	208,537	-	1,118	209,655
Due to other governmental units	27,172	17,976	5	45,153
Accrued expenditures	11,613	213,208	200	225,021
Salaries payable	25,929	474,589	673	501,191
Deferred revenue	42,622	9,831	-	52,453
Total liabilities	<u>349,007</u>	<u>738,656</u>	<u>2,059</u>	<u>1,089,722</u>
Fund Equity				
Fund balances				
Undesignated	<u>829,042</u>	<u>3,014,253</u>	<u>98</u>	<u>3,843,393</u>
Total fund equity	<u>829,042</u>	<u>3,014,253</u>	<u>98</u>	<u>3,843,393</u>
Total liabilities and fund equity	<u>\$ 1,178,049</u>	<u>\$ 3,752,909</u>	<u>\$ 2,157</u>	<u>\$ 4,933,115</u>

The accompanying notes to financial statements are an integral part of this statement.

Alpena-Montmorency-Alcona Educational Service District
**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES**

June 30, 2008

Total Governmental Fund Balances	\$	3,843,393
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.

Capital Assets	\$	3,517,944	
Less: Accumulated depreciation		<u>(1,931,723)</u>	
			1,586,221

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore not reported as liabilities in the funds.

Long-term liabilities at year end consist of:

Bonds payable	(148,861)	
Compensated absences payable	<u>-</u>	
		<u>(148,861)</u>

Total Net Assets - Governmental Activities	\$	<u><u>5,280,753</u></u>
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The accompanying notes to financial statements are an integral part of this statement.

Alpena-Montmorency-Alcona Educational Service District

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS**

Year ended June 30, 2008

	General	Special Education	Other Governmental Funds	Total Governmental Funds
REVENUES				
Local sources	\$ 492,599	\$ 3,938,461	\$ 8,075	\$ 4,439,135
State sources	615,055	1,284,155	2,694	1,901,904
Federal sources	336,718	1,763,671	18,826	2,119,215
Interdistrict sources	91,421	46,768	-	138,189
Other sources	10,278	5,848	-	16,126
Total revenues	1,546,071	7,038,903	29,595	8,614,569
EXPENDITURES				
Instruction	67,027	1,364,881	-	1,431,908
Supporting services	1,783,062	4,084,293	-	5,867,355
Community services	14,963	402	-	15,365
Food services	3,392	-	74,855	78,247
Capital outlay	24,537	14,862	-	39,399
Debt service	-	-	-	-
Interdistrict transfers	33,741	1,231,321	-	1,265,062
Total expenditures	1,926,722	6,695,759	74,855	8,697,336
OTHER FINANCING SOURCES (USES)				
Transfers from other funds	211,783	95,160	42,217	349,160
Transfers to other funds	(95,660)	(253,500)	-	(349,160)
	116,123	(158,340)	42,217	-
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(264,528)	184,804	(3,043)	(82,767)
FUND BALANCES, beginning of the year	1,093,570	2,829,449	3,141	3,926,160
FUND BALANCES, end of the year	\$ 829,042	\$ 3,014,253	\$ 98	\$ 3,843,393

The accompanying notes to financial statements are an integral part of this statement.

Alpena-Montmorency-Alcona Educational Service District

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

Year ended June 30, 2008

Total net change in fund balances - governmental funds	\$	(82,767)
--	----	----------

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Capital asset additions	138,869	
Depreciation expense	<u>(120,342)</u>	
		18,527

Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount of repayments reported as expenditures in the governmental funds.

Debt service - principal payments	<u>-</u>	-
-----------------------------------	----------	---

Some revenues (costs) reported in the statement of activities do not provide current financial resources and therefore are not reported as revenues (expenditures) in the governmental funds

Net book value of assets sold or retired	(2,282)	
Change in long-term compensated absences	<u>73,547</u>	
		<u>71,265</u>

Change in Net Assets of Governmental Activities	\$	<u><u>7,025</u></u>
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The accompanying notes to financial statements are an integral part of this statement.

Alpena-Montmorency-Alcona Educational Service District

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2008

	<u>Agency Fund</u>
ASSETS	
Cash and cash equivalents	\$ 55,457
Accounts receivable	8,005
Investments	<u>16,735</u>
Total assets	<u><u>\$ 80,197</u></u>
LIABILITIES	
Accounts payable	\$ -
Due to student activities	<u>80,197</u>
Total liabilities	<u>80,197</u>
NET ASSETS	
Unrestricted	
Undesignated	<u>-</u>
TOTAL NET ASSETS	<u><u>\$ 80,197</u></u>

The accompanying notes to financial statements are an integral part of this statement.

Alpena-Montmorency-Alcona Educational Service District

NOTES TO FINANCIAL STATEMENTS

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.

The financial statements of the Alpena-Montmorency-Alcona Educational Service District (AMA-ESD) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. The most significant of the School District's accounting policies are described below:

A. Description of Operations and Reporting Entity.

Description of Operations. The AMA-ESD operates under an appointed school board (seven members) and provides educational and support services as mandated by the State of Michigan and was organized in 1962. The AMA-ESD serves as the regional school service agency for four public school districts, one charter school, and non-public schools in Alpena, Montmorency, Alcona, and part of Presque Isle County.

Reporting Entity. A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure the financial statements are not misleading. The primary government of the School District consists of all funds, departments, boards and agencies that are not legally separate from the School District. For AMA-ESD, this includes general operations, special education services, food services, and supportive service activities of the School District.

Component units are legally separate organizations for which the School District is financially accountable. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves their budget, the issuance of their debt, or the levying of taxes. The School District has no component units.

B. Fund Accounting.

Fund Accounting. The School District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain School District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the School District are grouped into the categories governmental and fiduciary.

Governmental Funds. Governmental funds focus on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance.

The following are the School District's major governmental funds and the purpose of each:

General Fund. This fund is the School District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund. Included are all transactions related to the approved current operating budget.

Special Education Fund. The special education fund is used to account for financial resources to be used specifically for providing special education services to students within the School District.

Alpena-Montmorency-Alcona Educational Service District

NOTES TO FINANCIAL STATEMENTS

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES. (continued)

The other governmental funds (non-major funds) of the School District account for other resources whose use is restricted to a particular purpose.

School Lunch Fund. This fund is used to account for operation of food service activities.

Debt Service Fund. This fund is used to account for the resources accumulated and payments made to for principle and interest on long-term general obligation debt of governmental funds.

Fiduciary Funds. Trust and Agency Fund. Fiduciary funds are used to account for assets held by the school district in a trustee capacity or as an agent for others. Fiduciary funds are not included in the government-wide statements.

C. Basis of Presentation.

Government-wide Financial Statements. The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The financial activities of AMA-ESD are all considered governmental and do not reflect any business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School District.

Fund Financial Statements. Fund financial statements report detailed information about the School District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

Fiduciary funds are reported using the economic resources measurement focus.

Alpena-Montmorency-Alcona Educational Service District

NOTES TO FINANCIAL STATEMENTS

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES. (continued)

D. Basis of Accounting.

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues. Exchange and Non-exchange Transactions -Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available, means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within sixty days of the fiscal year-end.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes available in advance, interest, tuition, grants, student fees and rentals.

Deferred Revenue. Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses/Expenditures. On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the operating statement as an expense with a like amount reported as donated commodities revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

Cash and Cash Equivalents. Cash equivalents include petty cash, demand deposits and other short-term, highly liquid investments that are readily convertible to known amounts of cash.

Inventories. Inventories are not considered significant and are recorded as expenditures when purchased.

Investments. During the fiscal year ended June 30, 2008, investments were limited to certificates of deposit and cash management funds. The cash management funds were local government investment pools held at National City Bank, Independent Bank and the Michigan Liquid Asset Fund (MILAF). Local government investment pools allow school districts within the State of Michigan to consolidate their funds for investment purposes. Investments in cash management funds are valued at cost which equals market value.

Alpena-Montmorency-Alcona Educational Service District

NOTES TO FINANCIAL STATEMENTS

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES. (continued)

Prepaid Assets. Payments made to vendors for services that will benefit periods beyond June 30, 2008, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

Capital Assets. General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) using a \$5,000 capitalization threshold and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is also capitalized.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Land improvements	20 years
Buildings and Improvements	50 years
Office Equipment	5 – 20 years
Computer equipment	5 years
Vehicles	8 years

Interfund balances. On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental and business-type activities columns of the statement of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

Vacation and Sick Leave. Employees must use all vacation leave earned during the current school year by June 30 of that year. Employees have no vested rights to unused sick leave.

Accrued Liabilities and Long-term Obligations. All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, compensated absences, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Alpena-Montmorency-Alcona Educational Service District

NOTES TO FINANCIAL STATEMENTS

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES. (continued)

Net Assets. Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Encumbrances. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the School District. Commitments outstanding at year end are charged against the subsequent year's appropriation once received and approved.

Use of Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Reclassification. Certain items reported in the June 30, 2007 financial statements may have been reclassified to conform to the presentation for the current year.

NOTE 2--LEGAL COMPLIANCE.

Budgets and Budgetary Accounting. Prior to adoption of the budgets, the school administration prepares and submits their proposed operating budgets commencing the following July 1. A public hearing is conducted to obtain interested party comments. Prior to July 1 the budget is adopted by the Board of Education. Budgeted amounts are as originally adopted, or as amended by the Board of Education. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30. The District does not consider these amendments to be significant. Unused appropriations at June 30 are not carried forward to the following year.

The provisions of the Uniform Budgeting and Account Act, P.A. 621 became effective in July 1981. The Act provides major revenue categories and expenditure functions that constitute minimal levels. The AMA-ESD's budget was legally enacted on a functional level. Detail at the activity level is presented in the General Fund and each Special Revenue Funds Statement of Revenues, Expenditures and Fund Balances for the benefit of management. P.A. 621 provides that a school district shall not incur expenditures in excess of the amount appropriated.

During the year ended June 30, 2008, the AMA-ESD incurred revenues in certain budgetary funds which were less than the amounts appropriated. Violations, if any, are noted in the required supplementary information section (RSI) and were considered immaterial.

Alpena-Montmorency-Alcona Educational Service District

NOTES TO FINANCIAL STATEMENTS

NOTE 3--DEPOSITS AND INVESTMENTS.

As of June 30, 2008, the District had the following investments.

Investment Type	Fair Value	Weighted Average Maturity (Years)	Standard & Poor's Rating	%
Cash Management Funds	\$ 790,438	0.0000	N/A	21.56%
MILAF Cash Management Funds	664,895	0.0000	AAAm	18.13%
Certificates of Deposit	<u>2,211,113</u>	<u>0.6742</u>	N/A	<u>60.31%</u>
Total Fair Value	<u>\$ 3,666,446</u>			
Portfolio weighted average maturity		<u>0.6742</u>		<u>100.00%</u>

1 day maturity equals 0.0027, 1 year equals 1.0000

Interest rate risk. In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in the market interest rates by; (1) structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; (2) investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). As of June 30, 2008, the District did not have any investments with ratings below prime.

Concentration of credit risk. The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the district's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk – deposits. In the case of deposits, this is the risk that, in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2008, none of the District's bank balance of \$58,276 was exposed to custodial credit risk because it was uninsured and uncollateralized with securities held by the pledging financial institution's trust department or agent, but not in the district's name.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of June 30, 2008, there was \$3,366,446 of the District's investment balances of \$3,666,446 were exposed to custodial credit risk because it was uninsured and uncollateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

Alpena-Montmorency-Alcona Educational Service District

NOTES TO FINANCIAL STATEMENTS

NOTE 3--DEPOSITS AND INVESTMENTS. (continued)

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the district will do business.

The Board of Education authorized the following financial institutions for the investment of the District's funds for the year ended June 30, 2008: Bank of Alpena, Citizens Bank, Flagstar Bank, LaSalle Bank, National City Bank, Independent Bank, Michigan Liquid Asset Fund, and the Michigan CLASS Investment pool.

Foreign currency risk. The District is not authorized to invest in investments which have this type of risk.

The above amounts are reported in the financial statements as follows:

Cash – District wide	\$ 2,168
Investments – District wide	3,649,711
Cash – Agency fund	55,457
Investments – Agency fund	<u>16,735</u>
	<u>\$ 3,724,071</u>

NOTE 4--INTERFUND RECEIVABLES AND PAYABLES.

Interfund receivable and payable balances at June 30, 2008 are as follows:

<u>Fund</u>	<u>Receivable</u>	<u>Payable</u>
General	\$ -	\$ 208,537
Special Education	209,655	-
School Lunch Fund	<u>-</u>	<u>1,118</u>
Totals	<u>\$ 209,655</u>	<u>\$ 209,655</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided, (2) transactions are recorded in the accounting systems, and (3) payments between funds are made. All amounts are expected to be repaid within one year.

Alpena-Montmorency-Alcona Educational Service District

NOTES TO FINANCIAL STATEMENTS

NOTE 5--CAPITAL ASSETS.

Capital assets activity for the fiscal year ended June 30, 2008 was as follows:

	Balances June 30, 07	Additions	Disposals and Adjustments	Balances June 30, 08
Capital assets not being depreciated:				
Land	\$ 152,248	\$ -	\$ -	\$ 152,248
Capital assets being depreciated:				
Land improvements	136,460	-	-	136,460
Buildings and improvements	2,125,900	39,399	-	2,165,299
Office and computer	951,291	61,270	(22,944)	989,617
Vehicles	36,120	38,200	-	74,320
	<u>3,249,771</u>	<u>138,869</u>	<u>(22,944)</u>	<u>3,365,696</u>
Less accumulated depreciation:				
Land improvements	(65,113)	(6,650)	-	(71,763)
Buildings and improvements	(854,538)	(56,891)	-	(911,429)
Office and computer	(876,272)	(54,414)	20,662	(910,024)
Vehicles	(36,120)	(2,387)	-	(38,507)
	<u>(1,832,043)</u>	<u>(120,342)</u>	<u>20,662</u>	<u>(1,931,723)</u>
Net Capital Assets	<u>\$ 1,569,976</u>	<u>\$ 18,527</u>	<u>\$ (2,282)</u>	<u>\$ 1,586,221</u>

Depreciation expense was not allocated to governmental functions. It appears on the statement of activities as "unallocated".

NOTE 6--LONG-TERM DEBT (including current portions).

The following is a summary of governmental long-term obligations for the School District for the year ended June 30, 2008

	Balances, Jun 30, 2007	Additions	(Deductions)	Balances, Jun 30, 2008	Due within one year
General Obligation Bonds:					
1998 School Improvement Bonds (Durant bonds) dated 11/04/1998 Amount of issue - \$363,201 Maturing through 2013 Interest rate - 4.761353% Principal maturity range \$19,295- \$62,052	<u>\$ 148,861</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 148,861</u>	<u>\$ 20,213</u>
Total bond obligations	148,861	-	-	148,861	20,213

Alpena-Montmorency-Alcona Educational Service District

NOTES TO FINANCIAL STATEMENTS

NOTE 6--LONG-TERM DEBT (including current portions). (continued)

	Balances, Jun 30, 2007	Additions	(Deductions)	Balances, Jun 30, 2008	Due within one year
Other long-term obligations:					
Accumulated severance benefits	\$ 73,547	\$ -	\$ (73,547)	\$ -	\$ -
Total	<u>\$ 222,408</u>	<u>\$ -</u>	<u>\$ (73,547)</u>	<u>\$ 148,861</u>	<u>\$ 20,213</u>

The 1998 School Improvement Bonds (Durant Bonds), including interest, were issued in anticipation of payment to the District as appropriated and to be appropriated by the State of Michigan under Section 11g(3) of Act 94 (State Aid payments). The District has pledged and assigned to the bondholder all rights to these State Aid payments as security for the Bond.

The annual requirements to pay principal and interest on the obligations outstanding at June 30, 2008 are as follows:

For the year ending June 30,	Principal	Interest	Total Debt
2009	\$ 20,213	\$ 5,292	\$ 25,505
2010	21,175	4,330	25,505
2011	22,183	3,322	25,505
2012	23,238	2,266	25,504
2013	62,052	14,458	76,510
	<u>\$ 148,861</u>	<u>\$ 29,668</u>	<u>\$ 178,529</u>

NOTE 7--PROPERTY TAXES.

The assessed values of real and personal property situated in the school district are established annually by local taxing authorities as of December 31, and are equalized by the State at an estimated 50 percent of current market value. The property tax is levied on July 1 and becomes delinquent after September 14 for City of Alpena and Alcona County residents, with the remainder levied December 1 and payable by February 14. Uncollected property taxes as of March 1 are added to the County delinquent tax rolls. By agreement with the various counties, the Counties purchase at face value the real property taxes receivable returned delinquent each March 1. The Taxable Value (TV) for the 2007-2008 school year in the AMA-ESD was established at \$1,847,999,565. The property value used for determining the amount of property tax levied is known as the "taxable value". This differs from the SEV by increases being limited to a cost-of-living adjustment or five (5) percent, whichever is less. General Education Millage of .2141 and Special Education Millage of 1.9761 mills have been approved by the voters of the district.

Alpena-Montmorency-Alcona Educational Service District

NOTES TO FINANCIAL STATEMENTS

NOTE 8--DEFINED BENEFIT PENSION PLAN AND POST-EMPLOYMENT BENEFITS.

Plan Description. The School District participates in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple- employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the School District. The system provides retirement, survivor, and disability benefits to plan members and their beneficiaries. The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at P.O. Box 30171, Lansing, MI 48909-7611.

Funding Policy. Employer contributions to the system result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The pension benefit rate totals 17.74 percent for the period from July 1, 2007 through September 30, 2007 and 16.72 percent from October 1, 2007 through June 30, 2008 of the covered payroll to the plan. The School District's contributions to the MPERS plan for the years ended June 30, 2008, and 2007 were \$645,311 and \$626,702, respectively. Basic plan members make no contributions, but Member Investment Plan members contribute at rates ranging from 3 percent to 4.3 percent of gross wages. For the years ended June 30, 2008 and 2007, AMA-ESD School employees contributed \$109,504 and \$101,250, respectively.

Postemployment Benefits. Under the MPERS Act, all retirees participating in the MPERS pension plan have the option of continuing health, dental, and vision coverages. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental, and vision coverages. Required contributions for postemployment health care benefits are included as part of the School District's total contribution to the MPERS plan discussed above.

NOTE 9--INTERFUND TRANSFERS.

The General Fund transferred \$95,160 to the Special Education fund and \$500 to the Food Services Fund. The Special Education transferred \$211,783 to the General Fund and \$41,717 to the Food Services Fund.

The transfers to the Special Education Fund and Food Services Fund were used to fund operations and the transfer to the General Fund was to reimburse indirect costs of grant programs.

NOTE 10--RISK MANAGEMENT.

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, and natural disasters. The School District manages its risk exposures and provides certain employee benefits through a combination of self-insurance programs, risk management pools and excess insurance coverage policies. Following is a summary of these self-insurance programs and risk management pool participation.

The School District participates in the MASB-SEG Property and Casualty Pool for general and automobile liability, motor vehicle physical damage and property damage coverage. The MASB-SEG Property/Casualty Pool, Inc. was established in May 1985, pursuant to the laws of the State of Michigan. The purpose of the pool is to provide cooperative and comprehensive risk financing and control services. Member premiums are used to purchase excess insurance coverage and pay member claims in excess of deductible amounts. The deductible amount of any one loss ranges from \$250 to \$1,000 with a maximum coverage amount of \$5,000,000 for liability claims.

Alpena-Montmorency-Alcona Educational Service District

NOTES TO FINANCIAL STATEMENTS

NOTE 10--RISK MANAGEMENT. (continued)

The School district also participates in the SEG-Self-Insured Workers' Disability Compensation Fund for its Workers Compensation liabilities with coverage specific/statutory (unlimited) employers' liability of \$500,000.

The School District has purchased commercial insurance for medical benefits claims. A self-funded Dental and Vision Benefit Plan is provided for employees and their eligible dependents.

NOTE 11--CLAIMS AND CONTINGENCIES.

At various times there may be certain claims or lawsuits, either asserted or unasserted, pending against the School District. It is the policy of the Alpena-Montmorency-Alcona Educational Service District to record a liability for any contingency, claim or lawsuit when the loss is probable and an amount can be reasonably estimated. The School District is not aware of any loss contingencies that have not been recorded.

REQUIRED SUPPLEMENTARY INFORMATION

Alpena-Montmorency-Alcona Educational Service District
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

Year ended June 30, 2008

	Budget Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Local sources	\$ 487,702	\$ 488,092	\$ 492,599	\$ 4,507
State sources	704,465	649,871	615,056	(34,815)
Federal sources	204,782	454,669	336,717	(117,952)
Incoming transfers / other	315,000	311,699	313,482	1,783
Total revenues	<u>1,711,949</u>	<u>1,904,331</u>	<u>1,757,854</u>	<u>(146,477)</u>
EXPENDITURES				
Administrative				
Board of Education	52,980	64,084	63,751	333
District Administration	294,382	370,056	369,815	241
Human Resources	40,000	-	-	-
Business services	331,505	315,328	312,935	2,393
Technology planning	200,959	175,855	171,956	3,899
	<u>919,826</u>	<u>925,323</u>	<u>918,457</u>	<u>6,866</u>
Instructional services				
Instructional services	496,929	472,851	414,079	58,772
Math/science program	168,135	182,203	168,053	14,150
Summer schools	20,000	17,375	17,375	-
American History grant	174,704	200,188	185,382	14,806
NCLB (ECIA) projects	20,517	182,442	93,744	88,698
Pupil support services	5,000	5,000	5,000	-
	<u>885,285</u>	<u>1,060,059</u>	<u>883,633</u>	<u>176,426</u>
Other service areas				
Operation and maintenance	80,550	93,019	89,061	3,958
Capital outlay	30,000	-	-	-
Community Health grant	-	35,571	35,571	-
Outgoing transfers / other	138,160	95,660	95,660	-
	<u>248,710</u>	<u>224,250</u>	<u>220,292</u>	<u>3,958</u>
Total expenditures	<u>2,053,821</u>	<u>2,209,632</u>	<u>2,022,382</u>	<u>187,250</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(341,872)	(305,301)	(264,528)	40,773
FUND BALANCES , beginning of the year	<u>1,001,046</u>	<u>1,093,570</u>	<u>1,093,570</u>	<u>-</u>
FUND BALANCES , end of the year	<u>\$ 659,174</u>	<u>\$ 788,269</u>	<u>\$ 829,042</u>	<u>\$ 40,773</u>

Alpena-Montmorency-Alcona Educational Service District
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - SPECIAL EDUCATION FUND

Year ended June 30, 2008

	Budget Amounts			Variance with
	Original	Final	Actual	Final Budget
REVENUES				
Local sources	\$ 3,905,588	\$ 3,919,688	\$ 3,938,460	\$ 18,772
State sources	1,054,949	1,284,155	1,284,155	-
Federal sources	1,838,198	1,807,844	1,763,673	(44,171)
Incoming transfers / other	147,910	155,137	147,776	(7,361)
Total revenues	6,946,645	7,166,824	7,134,064	(32,760)
EXPENDITURES				
Direct Instruction				
Pied Piper - MoCI	608,778	618,778	606,623	12,155
Pied Piper - SCI	554,094	569,358	564,200	5,158
Hearing impaired	164,128	164,128	156,348	7,780
ECDD Classroom	198,575	205,526	190,197	15,329
	1,525,575	1,557,790	1,517,368	40,422
Instructional support				
Psychological services	654,120	654,120	627,528	26,592
Learning disabilities	277,189	212,896	223,317	(10,421)
Mentally impaired	97,142	135,027	132,819	2,208
Autistic impaired	93,978	93,978	87,609	6,369
Speech therapy	688,020	688,020	673,667	14,353
Social work	190,125	190,125	185,404	4,721
Literacy consultant	90,968	76,840	72,791	4,049
Occupational therapy	204,730	202,773	199,298	3,475
Physical therapy	112,400	114,282	109,818	4,464
Improvement of instruction	53,334	45,737	29,858	15,879
Vision	66,071	61,799	57,792	4,007
ECDD Consultant	237,003	237,003	222,951	14,052
Early on Consultant	69,438	70,695	69,389	1,306
Transition services	153,571	154,399	146,822	7,577
	2,988,089	2,937,694	2,839,063	98,631
Administrative				
Planning, Monitoring, Data collection	192,932	217,644	192,498	25,146
Instructional supervision	402,810	378,016	370,105	7,911
Board of education	33,500	38,500	32,140	6,360
	629,242	634,160	594,743	39,417

Alpena-Montmorency-Alcona Educational Service District
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - SPECIAL EDUCATION FUND

Year ended June 30, 2008

	Budget Amounts		Actual	Variance with Final Budget
	Original	Final		
Other service areas				
Operation and maintenance	\$ 150,576	\$ 175,576	\$ 144,223	\$ 31,353
Pupil transportation	290,500	367,186	354,179	13,007
Local P.A.C.	500	500	-	500
Capital outlay	45,000	15,000	14,862	138
Outgoing transfers / other	1,479,414	1,484,821	1,484,821	-
	<u>1,965,990</u>	<u>2,043,083</u>	<u>1,998,085</u>	<u>44,998</u>
Total expenditures	<u>7,108,896</u>	<u>7,172,727</u>	<u>6,949,259</u>	<u>223,468</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(162,251)	(5,903)	184,805	190,708
FUND BALANCES, beginning of the year	<u>2,419,656</u>	<u>2,829,449</u>	<u>2,829,449</u>	<u>-</u>
FUND BALANCES, end of the year	<u>\$ 2,257,405</u>	<u>\$ 2,823,546</u>	<u>\$ 3,014,254</u>	<u>\$ 190,708</u>

**OTHER SUPPLEMENTAL INFORMATION
AND INDIVIDUAL FUND STATEMENTS**

Alpena-Montmorency-Alcona Educational Service District

COMBINING BALANCE SHEET - OTHER GOVERNMENTAL FUNDS

June 30, 2008

	School Lunch	Debt Service	Total Other Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 1,330	\$ -	\$ 1,330
Accounts receivable	-	-	-
Due from other governmental units	827	-	827
Investments	-	-	-
Total assets	<u>\$ 2,157</u>	<u>\$ -</u>	<u>\$ 2,157</u>
LIABILITIES AND EQUITIES			
Accounts payable	\$ 63	\$ -	\$ 63
Due to other funds	1,118	-	1,118
Due to other governmental units	5	-	5
Accrued expenditures	200	-	200
Salaries payable	673	-	673
Total liabilities	<u>2,059</u>	<u>-</u>	<u>2,059</u>
Fund Equity			
Fund balances			
Undesignated	<u>98</u>	<u>-</u>	<u>98</u>
Total fund equity	<u>98</u>	<u>-</u>	<u>98</u>
Total liabilities and fund equity	<u>\$ 2,157</u>	<u>\$ -</u>	<u>\$ 2,157</u>

Alpena-Montmorency-Alcona Educational Service District

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
OTHER GOVERNMENTAL FUNDS**

Year ended June 30, 2008

	School Lunch	Debt Service	Total Other Governmental Funds
REVENUES			
Local sources	\$ 8,075	\$ -	\$ 8,075
State sources	2,694	-	2,694
Federal sources	18,826	-	18,826
	<u>29,595</u>	<u>-</u>	<u>29,595</u>
EXPENDITURES			
Food services	74,854	-	74,854
Debt service	-	-	-
	<u>74,854</u>	<u>-</u>	<u>74,854</u>
OTHER FINANCING SOURCES (USES)			
Transfers from other funds	42,216	-	42,216
Transfers to other funds	-	-	-
	<u>42,216</u>	<u>-</u>	<u>42,216</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(3,043)	-	(3,043)
FUND BALANCES, beginning of the year	<u>3,141</u>	<u>-</u>	<u>3,141</u>
FUND BALANCES, end of the year	<u>\$ 98</u>	<u>\$ -</u>	<u>\$ 98</u>

Alpena-Montmorency-Alcona Educational Service District

GENERAL FUND

BALANCE SHEET

	June 30	
	2008	2007
ASSETS		
Cash and cash equivalents	\$ 394	\$ 382
Taxes receivable	4,132	3,587
Accounts receivable	5,493	45,709
Due from other funds	-	4,080
Due from other governmental units	280,756	271,348
Interest receivable on investments and deposits	449	2,909
Investments	885,774	868,711
Other current assets	1,051	57,289
Total assets	<u>\$ 1,178,049</u>	<u>\$ 1,254,015</u>
LIABILITIES AND EQUITY		
Accounts payable	\$ 33,134	\$ 51,642
Due to other funds	208,537	-
Due to other governmental units	27,172	49,208
Accrued expenditures	11,613	166
Salaries payable	25,929	11,530
Deferred revenue	42,622	47,899
Total liabilities	<u>349,007</u>	<u>160,445</u>
Fund Equity		
Fund balances		
Undesignated	<u>829,042</u>	<u>1,093,570</u>
Total fund equity	<u>829,042</u>	<u>1,093,570</u>
Total liabilities and equity	<u>\$ 1,178,049</u>	<u>\$ 1,254,015</u>

Alpena-Montmorency-Alcona Educational Service District

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCES

	Year ended June 30		
	2008 Final Budget	2008 Actual	2007 Actual
REVENUES			
LOCAL SOURCES			
Property tax levy	\$ 394,102	\$ 395,657	\$ 377,412
Penalties and interest on delinquent taxes	655	862	343
Revenue in lieu of taxes	1,800	3,155	1,687
Tuition - Camp Wilderness	17,640	17,640	20,000
Earnings on investments and deposits	42,500	43,099	50,574
Conference fees	2,200	2,144	4,380
Internet fees	720	720	1,008
Rental of facility	375	375	1,525
Sprinkler Lake - dues/fees	8,000	8,423	3,138
Private sources (contributions)	500	1,000	16,257
Service Fees	6,000	5,025	-
USF reimbursement	11,600	11,650	4,392
Miscellaneous	2,000	2,849	4,476
	<u>488,092</u>	<u>492,599</u>	<u>485,192</u>
STATE SOURCES			
State aid			
Restricted	200,581	165,246	441,989
Unrestricted	397,060	408,834	200,686
Other	52,230	40,975	34,782
	<u>649,871</u>	<u>615,055</u>	<u>677,457</u>
FEDERAL SOURCES			
Abstinence grant	31,722	31,722	160,392
NCLB Title II, Part A Teacher training	162,891	74,456	55,722
NCLB Title II, Part B Math and science	19,217	19,217	7,897
NCLB Title II, Part D Education technology	-	-	299,390
NCLB Title V, Part A Innovative	334	71	1,242
R.E.A.P.	33,555	19,927	20,101
Teaching American History	206,950	191,325	299,401
	<u>454,669</u>	<u>336,718</u>	<u>844,145</u>
INTERDISTRICT SOURCES			
Other school districts	91,421	91,421	64,353
	<u>91,421</u>	<u>91,421</u>	<u>64,353</u>
OTHER SOURCES			
Sale of fixed assets	585	585	-
Reimbursements and refunds	9,693	9,693	1,978
	<u>10,278</u>	<u>10,278</u>	<u>1,978</u>
Total revenues	<u>1,694,331</u>	<u>1,546,071</u>	<u>2,073,125</u>

Alpena-Montmorency-Alcona Educational Service District

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCES

	Year ended June 30		
	2008 Final Budget	2008 Actual	2007 Actual
EXPENDITURES			
INSTRUCTION			
ELEMENTARY			
Salaries	\$ 31,581	\$ 27,368	\$ 32,274
Employee benefits	7,219	4,939	6,766
Purchased services	6,500	5,368	6,808
Supplies and materials	25,801	12,769	17,730
	<u>71,101</u>	<u>50,444</u>	<u>63,578</u>
MIDDLE/JUNIOR HIGH			
Supplies and materials	-	-	139,197
	<u>-</u>	<u>-</u>	<u>139,197</u>
SUMMER SCHOOL			
Salaries	8,501	8,501	10,218
Employee benefits	498	498	2,382
Purchased services	4,300	4,300	2,702
Supplies and materials	3,284	3,284	4,470
	<u>16,583</u>	<u>16,583</u>	<u>19,772</u>
COMPENSATORY EDUCATION			
Supplies and materials	6	-	-
	<u>6</u>	<u>-</u>	<u>-</u>
Total instruction	<u>87,690</u>	<u>67,027</u>	<u>222,547</u>
SUPPORTING SERVICES			
PUPIL SERVICES			
TRUANCY/ABSENTEEISM SERVICES			
Purchased Services	5,000	5,000	5,000
	<u>5,000</u>	<u>5,000</u>	<u>5,000</u>
GUIDANCE SERVICES			
Salaries	13,170	9,354	327
Employee benefits	3,336	6,207	445
Purchased services	15,143	5,930	44,344
Supplies and materials	13,320	8,789	1,638
	<u>44,969</u>	<u>30,280</u>	<u>46,754</u>
Total pupil services	<u>49,969</u>	<u>35,280</u>	<u>51,754</u>

Alpena-Montmorency-Alcona Educational Service District

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCES

	Year ended June 30		
	2008 Final Budget	2008 Actual	2007 Actual
EXPENDITURES (CONTINUED)			
INSTRUCTIONAL STAFF SERVICES			
IMPROVEMENT OF INSTRUCTION			
Salaries	\$ 226,192	\$ 232,943	\$ 186,455
Employee benefits	106,411	113,673	73,668
Purchased services	260,088	176,522	435,184
Supplies and materials	125,936	107,397	59,070
Capital outlay	6,780	6,780	-
Other	6,684	5,535	5,039
	<u>732,091</u>	<u>642,850</u>	<u>759,416</u>
COMPUTER-ASSISTED INSTRUCTION			
Purchased services	-	-	2,168
	<u>-</u>	<u>-</u>	<u>2,168</u>
ASSESSMENT			
Purchased services	-	-	80,133
	<u>-</u>	<u>-</u>	<u>80,133</u>
Total instructional staff services	<u>732,091</u>	<u>642,850</u>	<u>841,717</u>
GENERAL ADMINISTRATION			
BOARD OF EDUCATION			
Salaries	4,000	4,080	3,240
Employee benefits	306	301	234
Purchased services	42,705	42,847	39,890
Supplies and materials	2,165	2,098	568
Other	9,491	9,445	9,352
	<u>58,667</u>	<u>58,771</u>	<u>53,284</u>
EXECUTIVE ADMINISTRATION			
Salaries	257,333	257,133	193,690
Employee benefits	84,174	86,878	65,401
Purchased services	7,250	6,370	11,758
Supplies and materials	6,032	5,229	3,499
Other	6,600	6,692	5,823
	<u>361,389</u>	<u>362,302</u>	<u>280,171</u>
Total general administration	<u>420,056</u>	<u>421,073</u>	<u>333,455</u>

Alpena-Montmorency-Alcona Educational Service District

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCES

	Year ended June 30		
	2008 Final Budget	2008 Actual	2007 Actual
EXPENDITURES (CONTINUED)			
BUSINESS SERVICES			
FISCAL SERVICES			
Salaries	\$ 174,213	\$ 174,213	\$ 138,282
Employee benefits	96,194	96,150	68,597
Purchased services	27,250	25,210	9,967
Supplies and materials	7,190	6,656	4,829
Capital outlay	-	-	594
Other	995	1,016	444
	<u>305,842</u>	<u>303,245</u>	<u>222,713</u>
OTHER BUSINESS SERVICES			
Purchased services	2,917	2,917	3,080
Other	1,750	1,517	739
	<u>4,667</u>	<u>4,434</u>	<u>3,819</u>
Total business services	<u>310,509</u>	<u>307,679</u>	<u>226,532</u>
OPERATIONS AND MAINTENANCE			
OPERATIONS AND MAINTENANCE			
Salaries	25,800	25,380	19,716
Employee benefits	23,115	22,846	15,033
Purchased services	77,315	63,146	66,416
Supplies and materials	30,639	30,185	25,501
Other	230	230	126,666
	<u>157,099</u>	<u>141,787</u>	<u>126,666</u>
Total operation and maintenance	<u>157,099</u>	<u>141,787</u>	<u>126,666</u>
PUPIL TRANSPORTATION			
PUPIL TRANSPORTATION			
Purchased services	<u>2,400</u>	<u>2,400</u>	<u>2,269</u>
Total pupil transportation	<u>2,400</u>	<u>2,400</u>	<u>2,269</u>

Alpena-Montmorency-Alcona Educational Service District

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCES

	Year ended June 30		
	2008 Final Budget	2008 Actual	2007 Actual
EXPENDITURES (CONTINUED)			
CENTRAL SERVICES			
PLANNING AND RESEARCH			
Purchased services	\$ 63,200	\$ 38,057	\$ 19,722
	<u>63,200</u>	<u>38,057</u>	<u>19,722</u>
STAFF/PERSONNEL SERVICES			
Purchased Services	10,867	9,713	2,400
Other	200	200	-
	<u>11,067</u>	<u>9,913</u>	<u>2,400</u>
INFORMATION MANAGEMENT SERVICES			
Salaries	76,229	75,062	57,712
Employee benefits	38,417	38,096	30,744
Purchased services	52,835	51,034	56,810
Supplies and materials	5,750	5,432	9,167
Capital outlay	2,623	2,332	-
Other	-	-	400
	<u>175,854</u>	<u>171,956</u>	<u>154,833</u>
PUPIL ACCOUNTING			
Purchased services	12,067	12,067	20,787
	<u>12,067</u>	<u>12,067</u>	<u>20,787</u>
Total central services	<u>262,188</u>	<u>231,993</u>	<u>197,742</u>
Total supporting services	<u>1,934,312</u>	<u>1,783,062</u>	<u>1,780,135</u>
FOOD SERVICES			
Salaries	1,430	1,430	-
Employee benefits	1,962	1,962	-
	<u>3,392</u>	<u>3,392</u>	<u>-</u>
Total food services	<u>3,392</u>	<u>3,392</u>	<u>-</u>
COMMUNITY SERVICES			
COMMUNITY ACTIVITIES			
Other	7,526	499	571
	<u>7,526</u>	<u>499</u>	<u>571</u>

Alpena-Montmorency-Alcona Educational Service District

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCES

	Year ended June 30		
	2008 Final Budget	2008 Actual	2007 Actual
EXPENDITURES (CONTINUED)			
NON-PUBLIC SCHOOLS PUPILS			
Supplies and materials	\$ 80	\$ 71	\$ 196
	<u>80</u>	<u>71</u>	<u>196</u>
OTHER COMMUNITY SERVICES			
Purchased services	17,276	10,925	9,056
Supplies and materials	3,350	3,468	308
	<u>20,626</u>	<u>14,393</u>	<u>9,364</u>
Total community services	<u>28,232</u>	<u>14,963</u>	<u>10,131</u>
INTERDISTRICT TRANSFERS			
Payments to other districts	-	-	44,371
Payments to other governmental entities	<u>33,741</u>	<u>33,741</u>	<u>160,632</u>
Total interdistrict transfers	<u>33,741</u>	<u>33,741</u>	<u>205,003</u>
CAPITAL OUTLAY			
BUILDING IMPROVEMENTS SERVICES			
Capital outlay	<u>26,605</u>	<u>24,537</u>	<u>12,196</u>
	<u>26,605</u>	<u>24,537</u>	<u>12,196</u>
OTHER CONSTRUCTION SERVICES			
Capital outlay	-	-	240
	<u>-</u>	<u>-</u>	<u>240</u>
Total capital outlay	<u>26,605</u>	<u>24,537</u>	<u>12,436</u>
Total expenditures	<u>2,113,972</u>	<u>1,926,722</u>	<u>2,230,252</u>
OTHER FINANCING SOURCES (USES)			
Transfers from other funds	210,000	211,783	251,731
Transfers to other funds	<u>(95,660)</u>	<u>(95,660)</u>	<u>(135,160)</u>
	<u>114,340</u>	<u>116,123</u>	<u>116,571</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(305,301)	(264,528)	(40,556)
FUND BALANCES , beginning of the year	<u>1,093,570</u>	<u>1,093,570</u>	<u>1,134,126</u>
FUND BALANCES , end of the year	<u>\$ 788,269</u>	<u>\$ 829,042</u>	<u>\$ 1,093,570</u>

Alpena-Montmorency-Alcona Educational Service District

SPECIAL EDUCATION FUND

BALANCE SHEET

	June 30	
	2008	2007
ASSETS		
Cash and cash equivalents	\$ 444	\$ 432
Taxes receivable	31,390	27,714
Accounts receivable	533	-
Due from other funds	209,655	10,431
Due from other governmental units	745,736	878,280
Interest receivable on investments and deposits	78	2,683
Investments	2,763,937	2,477,126
Other current assets	1,136	-
Total assets	<u>\$ 3,752,909</u>	<u>\$ 3,396,666</u>
LIABILITIES AND EQUITIES		
Accounts payable	\$ 23,052	\$ 19,316
Due to other governmental units	17,976	17,596
Accrued expenditures	213,208	180,053
Salaries payable	474,589	350,252
Deferred revenue	9,831	-
	<u>738,656</u>	<u>567,217</u>
Fund Equity		
Fund balances		
Undesignated	<u>3,014,253</u>	<u>2,829,449</u>
Total fund equity	<u>3,014,253</u>	<u>2,829,449</u>
Total liabilities and equity	<u>\$ 3,752,909</u>	<u>\$ 3,396,666</u>

Alpena-Montmorency-Alcona Educational Service District

SPECIAL EDUCATION FUND

STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCES

	Year ended June 30		
	2008 Final Budget	2008 Actual	2007 Actual
REVENUES			
LOCAL SOURCES			
Property taxes	\$ 3,637,488	\$ 3,651,832	\$ 3,399,706
Penalties and interest on delinquent taxes	5,000	7,922	3,074
Revenue in lieu of taxes	16,500	27,509	15,196
Earnings on investments and deposits	140,000	141,950	167,941
Medicaid fee for service	120,000	108,513	130,918
Private sources (contributions)	-	-	2,654
Miscellaneous	700	735	348
	<u>3,919,688</u>	<u>3,938,461</u>	<u>3,719,837</u>
STATE SOURCES			
State aid			
Restricted	1,264,155	1,264,155	1,136,937
Vocational rehabilitation	20,000	20,000	20,000
	<u>1,284,155</u>	<u>1,284,155</u>	<u>1,156,937</u>
FEDERAL SOURCES			
P.L. 94-142 Special education	1,684,395	1,591,443	1,570,984
P.L. 94-142 Preschool incentive	40,011	40,011	40,199
I.D.E.A. - Part B MiBLSi	10,000	10,000	21,693
Infants and toddlers - Early on Michigan	73,438	71,198	72,698
Medicaid - Outreach	-	51,019	59,024
	<u>1,807,844</u>	<u>1,763,671</u>	<u>1,764,598</u>
INTERDISTRICT SOURCES			
Other received from other public schools	54,129	46,768	74,636
	<u>54,129</u>	<u>46,768</u>	<u>74,636</u>
OTHER SOURCES			
Sale of fixed assets	-	-	200
Reimbursements and refunds	5,848	5,848	1,978
	<u>5,848</u>	<u>5,848</u>	<u>2,178</u>
Total revenues	<u>7,071,664</u>	<u>7,038,903</u>	<u>6,718,186</u>

Alpena-Montmorency-Alcona Educational Service District

SPECIAL EDUCATION FUND

STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCES

	Year ended June 30		
	2008 Final Budget	2008 Actual	2007 Actual
EXPENDITURES			
INSTRUCTION			
SPECIAL EDUCATION			
Salaries	\$ 860,167	\$ 845,432	\$ 839,460
Employee benefits	503,735	496,226	452,712
Purchased services	8,780	1,998	9,047
Supplies and materials	20,480	16,978	15,695
Capital outlay	4,248	4,247	6,185
Other	300	-	124
	<u>1,397,710</u>	<u>1,364,881</u>	<u>1,323,223</u>
Total instruction	<u>1,397,710</u>	<u>1,364,881</u>	<u>1,323,223</u>
SUPPORTING SERVICES			
PUPIL SERVICES			
HEALTH SERVICES			
Salaries	205,654	199,068	188,407
Employee benefits	101,851	101,942	96,172
Purchased services	7,850	6,726	7,780
Supplies and materials	1,700	1,380	2,000
	<u>317,055</u>	<u>309,116</u>	<u>294,359</u>
PSYCHOLOGICAL SERVICES			
Salaries	438,838	433,237	395,044
Employee benefits	190,582	175,186	143,953
Purchased services	14,500	12,651	10,483
Supplies and materials	8,020	4,274	5,101
Capital outlay	2,180	2,180	-
	<u>654,120</u>	<u>627,528</u>	<u>554,581</u>
SPEECH PATHOLOGY			
Salaries	474,620	467,805	444,712
Employee benefits	196,928	190,080	175,664
Purchased services	10,831	9,489	13,576
Supplies and materials	5,641	6,293	5,852
	<u>688,020</u>	<u>673,667</u>	<u>639,804</u>
SOCIAL WORK SERVICES			
Salaries	129,621	129,685	121,606
Employee benefits	54,714	49,932	48,470
Purchased services	4,700	4,697	4,421
Capital outlay	1,090	1,090	-
	<u>190,125</u>	<u>185,404</u>	<u>174,497</u>

Alpena-Montmorency-Alcona Educational Service District

SPECIAL EDUCATION FUND

STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCES

	Year ended June 30		
	2008 Final Budget	2008 Actual	2007 Actual
EXPENDITURES (CONTINUED)			
TEACHER CONSULTANT			
Salaries	\$ 591,883	\$ 594,121	\$ 570,243
Employee benefits	272,103	257,235	237,820
Purchased services	29,759	20,070	16,558
Supplies and materials	2,950	2,279	1,134
Capital outlay	3,270	3,270	-
	<u>899,965</u>	<u>876,975</u>	<u>825,755</u>
Total pupil services	<u>2,749,285</u>	<u>2,672,690</u>	<u>2,488,996</u>
INSTRUCTIONAL SUPPORT			
OTHER PUPIL SUPPORT SERVICES			
Salaries	71,085	70,889	68,932
Employee benefits	53,182	47,149	47,108
Purchased services	14,000	11,631	14,924
Supplies and materials	7,132	10,252	19,454
	<u>145,399</u>	<u>139,921</u>	<u>150,418</u>
IMPROVEMENT OF INSTRUCTION			
Salaries	48,023	46,794	14,521
Employee benefits	26,567	25,691	3,585
Purchased services	29,788	23,756	10,781
Supplies and materials	21,990	9,963	4,238
Capital outlay	1,090	1,090	-
Other	8,165	8,165	1,128
	<u>135,623</u>	<u>115,459</u>	<u>34,253</u>
SUPERVISION/DIRECTION OF INSTRUCTIONAL STAFF			
Salaries	284,506	282,718	303,794
Employee benefits	137,485	135,938	140,099
Purchased services	12,865	10,822	9,523
Supplies and materials	11,500	9,167	8,293
Capital outlay	-	-	18,256
Other	480	447	800
	<u>446,836</u>	<u>439,092</u>	<u>480,765</u>
Total instructional support	<u>727,858</u>	<u>694,472</u>	<u>665,436</u>

Alpena-Montmorency-Alcona Educational Service District

SPECIAL EDUCATION FUND

STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCES

	Year ended June 30		
	2008 Final Budget	2008 Actual	2007 Actual
EXPENDITURES (CONTINUED)			
BUSINESS SERVICES			
BOARD OF EDUCATION			
Purchased services	\$ -	\$ -	\$ 5,853
	-	-	5,853
FISCAL SERVICES			
Purchased services	5,500	5,041	5,141
	5,500	5,041	5,141
OTHER BUSINESS SERVICES			
Purchased services	17,000	13,418	15,999
Other	16,000	13,681	5,386
	33,000	27,099	21,385
Total business services	38,500	32,140	32,379
OPERATION AND MAINTENANCE			
OPERATION AND MAINTENANCE			
Salaries	36,466	36,464	34,976
Employee benefits	24,884	23,555	21,313
Purchased services	35,476	26,632	31,302
Supplies and materials	58,750	53,376	52,712
Capital outlay	20,000	4,196	-
	175,576	144,223	140,303
Total operation and maintenance	175,576	144,223	140,303
PUPIL TRANSPORTATION			
PUPIL TRANSPORTATION			
Purchased services	260,898	250,805	277,974
Supplies and materials	61,500	58,897	44,615
Capital outlay	38,200	38,200	732
Other	1,000	369	732
	361,598	348,271	323,321
Total pupil transportation	361,598	348,271	323,321

Alpena-Montmorency-Alcona Educational Service District

SPECIAL EDUCATION FUND

STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCES

	Year ended June 30		
	2008 Final Budget	2008 Actual	2007 Actual
EXPENDITURES (CONTINUED)			
CENTRAL SERVICES			
PLANNING AND RESEARCH			
Salaries	\$ 98,436	\$ 91,195	\$ 83,808
Employee benefits	48,663	42,187	37,583
Purchased services	8,545	5,283	5,139
Supplies and materials	500	38	-
Other	100	80	95
	<u>156,244</u>	<u>138,783</u>	<u>126,625</u>
INFORMATION MANAGEMENT SERVICES			
Salaries	43,484	37,523	36,458
Employee benefits	18,704	16,181	13,028
Purchased services	250	10	80
	<u>62,438</u>	<u>53,714</u>	<u>49,566</u>
Total central services	<u>218,682</u>	<u>192,497</u>	<u>176,191</u>
Total supporting services	<u>4,271,499</u>	<u>4,084,293</u>	<u>176,191</u>
COMMUNITY SERVICES			
OTHER COMMUNITY SERVICES			
Purchased services	610	110	334
Supplies and materials	269	292	-
Other	-	-	268
	<u>879</u>	<u>402</u>	<u>602</u>
Total community services	<u>879</u>	<u>402</u>	<u>602</u>
INTERDISTRICT TRANSFERS			
TRANSFERS			
Act 18	1,118,781	1,118,781	1,111,755
Medicaid	112,540	112,540	142,659
	<u>1,231,321</u>	<u>1,231,321</u>	<u>1,254,414</u>
Total interdistrict transfers	<u>1,231,321</u>	<u>1,231,321</u>	<u>1,254,414</u>

Alpena-Montmorency-Alcona Educational Service District

SPECIAL EDUCATION FUND

STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCES

	Year ended June 30		
	2008 Final Budget	2008 Actual	2007 Actual
CAPITAL OUTLAY			
SITE IMPROVEMENTS			
Capital outlay	\$ 17,000	\$ 14,862	\$ -
	<u>17,000</u>	<u>14,862</u>	<u>-</u>
Total capital outlay	<u>17,000</u>	<u>14,862</u>	<u>-</u>
Total expenditures	<u>6,918,409</u>	<u>6,695,759</u>	<u>6,404,865</u>
OTHER FINANCING SOURCES (USES)			
Transfers from other funds	95,160	95,160	95,160
Transfers to other funds	(253,500)	(253,500)	(251,731)
	<u>(158,340)</u>	<u>(158,340)</u>	<u>(156,571)</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(5,085)	184,804	156,750
FUND BALANCES, beginning of the year	<u>2,829,449</u>	<u>2,829,449</u>	<u>2,672,699</u>
FUND BALANCES, end of the year	<u>\$ 2,824,364</u>	<u>\$ 3,014,253</u>	<u>\$ 2,829,449</u>

Alpena-Montmorency-Alcona Educational Service District

SCHOOL LUNCH FUND

BALANCE SHEET

	June 30	
	2008	2007
ASSETS		
Cash and cash equivalents	\$ 1,330	\$ 18,026
Accounts receivable	-	84
Due from other governmental units	827	700
Investments	-	77
Total assets	<u>\$ 2,157</u>	<u>\$ 18,887</u>
LIABILITIES AND EQUITY		
Accounts payable	\$ 63	\$ 218
Due to other funds	1,118	14,511
Due to other governmental units	5	-
Accrued expenditures	200	275
Salaries payable	<u>673</u>	<u>742</u>
Total liabilities	<u>2,059</u>	<u>15,746</u>
Fund Equity		
Fund balances		
Undesignated	<u>98</u>	<u>3,141</u>
Total fund equity	<u>98</u>	<u>3,141</u>
Total liabilities and equity	<u>\$ 2,157</u>	<u>\$ 18,887</u>

Alpena-Montmorency-Alcona Educational Service District

SCHOOL LUNCH FUND

STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCES

	Year ended June 30		
	2008 Final Budget	2008 Actual	2007 Actual
REVENUES			
LOCAL SOURCES			
Sales to students - lunch	\$ 5,100	\$ 4,673	\$ 5,271
Sales to students - breakfast	2,000	1,733	2,135
Sales to adults - lunch	750	739	618
Sales to adults - breakfast	15	9	14
Sales - milk	150	145	205
Earnings on investments and deposits	635	697	126
Miscellaneous	175	79	106
	<u>8,825</u>	<u>8,075</u>	<u>8,475</u>
STATE SOURCES			
State aid - breakfast	2,527	2,527	2,900
State aid - lunch	168	167	150
	<u>2,695</u>	<u>2,694</u>	<u>3,050</u>
FEDERAL SOURCES			
School lunch	11,250	11,364	9,451
School breakfast	6,600	6,668	6,555
USDA entitlement	1,800	794	255
USDA bonus	200	-	18
	<u>19,850</u>	<u>18,826</u>	<u>16,279</u>
Total revenues	<u>31,370</u>	<u>29,595</u>	<u>27,804</u>
EXPENDITURES			
Salaries	28,912	28,770	25,943
Employee benefits	21,565	21,428	19,217
Purchased services	150	315	7
Supplies and materials	26,500	24,065	20,179
Other	273	277	25
	<u>77,400</u>	<u>74,855</u>	<u>65,371</u>
Total expenditures	<u>77,400</u>	<u>74,855</u>	<u>65,371</u>
OTHER FINANCING SOURCES (USES)			
Transfers from other funds	<u>44,000</u>	<u>42,217</u>	<u>40,000</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(2,030)	(3,043)	2,433
FUND BALANCES, beginning of the year	<u>3,141</u>	<u>3,141</u>	<u>708</u>
FUND BALANCES, end of the year	<u>\$ 1,111</u>	<u>\$ 98</u>	<u>\$ 3,141</u>

Alpena-Montmorency-Alcona Educational Service District

AGENCY FUND

BALANCE SHEET

	June 30	
	2008	2007
ASSETS		
Cash and cash equivalents	\$ 55,457	\$ 82,250
Accounts receivable	8,005	9,789
Investments	16,735	16,070
Total assets	<u>\$ 80,197</u>	<u>\$ 108,109</u>
LIABILITIES AND EQUITY		
Accounts payable	\$ -	\$ 42,760
Due to student activities	80,197	65,349
Total liabilities	<u>80,197</u>	<u>108,109</u>
Fund Equity		
Fund balances		
Undesignated	-	-
Total fund equity	<u>-</u>	<u>-</u>
Total liabilities and equity	<u>\$ 80,197</u>	<u>\$ 108,109</u>

Alpena-Montmorency-Alcona Educational Service District

AGENCY FUND

STATEMENT OF RECEIPTS, DISBURSEMENTS, AND DEPOSITS HELD

	Balances June 30, 2007	Additions	Reductions	Balances June 30, 2008
STUDENT ACTIVITIES				
Flower Fund	\$ 4,515	\$ 7,368	\$ 5,943	\$ 5,940
Sprinkler Lake	20,499	3,487	508	23,478
Greenhouse	32,305	30,771	20,790	42,286
Playground	2,441	1,512	3,152	801
Piper Fund	5,057	6,229	5,036	6,250
Living with ASD	-	703	420	283
Circle of Friends	-	250	58	192
Memorials	532	1,663	1,228	967
	<u>\$ 65,349</u>	<u>\$ 51,983</u>	<u>\$ 37,135</u>	<u>\$ 80,197</u>

Alpena-Montmorency-Alcona Educational Service District

SCHEDULE OF INDEBTEDNESS

June 30, 2008

	<u>Interest Rate</u>	<u>Fiscal Year of Maturity</u>	<u>Principal Payable</u>	<u>Annual Interest Payable</u>
1998 School Improvement Bonds	4.76%	2009	\$ 20,213	\$ 5,292
Date of issue: 11/24/98	4.76%	2010	21,175	4,330
Amount of issue: \$363,201	4.76%	2011	22,183	3,322
	4.76%	2012	23,238	2,266
	4.76%	2013	62,052	14,458
			<u>\$ 148,861</u>	<u>\$ 29,668</u>

FEDERAL FINANCIAL ASSISTANCE

Alpena-Montmorency-Alcona Educational Service District

SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

For the year ended June 30, 2008

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Program or Award Amount</u>
<u>U.S. Department of Agriculture</u>			
Passed through State of Michigan Department of Education:			
Food Donation	10.550		
Entitlement commodities		N/A	\$ 794
Bonus commodities		N/A	-
			<u>794</u>
School Breakfast Program	10.553		
National School Lunch-Breakfast		081970	5,880
National School Lunch-Breakfast		071970	6,278
			<u>12,158</u>
National School Lunch Program	10.555		
Section 4 - All lunches		081950	1,312
Section 4 - All lunches		071950	1,383
Section 11 - Free and reduced lunches		081960	8,753
Section 11 - Free and reduced lunches		071960	7,823
			<u>19,271</u>
Total U.S. Department of Agriculture			<u>32,223</u>
<u>U.S. Department of Education</u>			
Direct Programs:			
Fund for the Improvement of Education	84.215		
Teaching American History		U215X040118	853,158
			<u>853,158</u>
Rural Education	84.358		
REAP Small Rural School Achievement Program 07/08		S358A075863	20,395
REAP Small Rural School Achievement Program 06/07		S358A065863	19,804
			<u>40,199</u>
Total Direct Programs			<u>893,357</u>
Passed through State of Michigan Department of Education:			
Special Education - Grants to States	* 84.027A		
Early On Michigan			
Infant Toddler 2008		081340 190	71,163
			<u>71,163</u>
Special Education - Grants to States	* 84.027A		
Service Provider Self Review			
Idea Service Provider		080440 0708	4,000
Idea Transition 2007/2008		080490 TS	50,000
Idea ESOD 2007/2008		070480 EOSD	45,000
			<u>99,000</u>

* - Major Program

Revenue Accrued (Deferred) at July 1, 2007	Prior Year(s) Expenditures	Current Year		Revenue Accrued (Deferred) at June 30, 2008	Total Expenditures
		Receipts	Expenditures		
\$ -	\$ -	\$ 794	\$ 794	\$ -	\$ 794
-	-	-	-	-	-
-	-	794	794	-	794
-	-	5,545	5,880	335	5,880
329	5,490	1,117	788	-	6,278
329	5,490	6,662	6,668	335	12,158
-	-	1,290	1,312	22	1,312
62	1,194	251	189	-	1,383
-	-	8,282	8,753	471	8,753
309	6,713	1,419	1,110	-	7,823
371	7,907	11,242	11,364	493	19,271
700	13,397	18,698	18,826	828	32,223
60,806	646,208	119,287	191,325	132,844	837,533
60,806	646,208	119,287	191,325	132,844	837,533
-	-	5,526	6,767	1,241	6,767
6,644	6,644	19,804	13,160	-	19,804
6,644	6,644	25,330	19,927	1,241	26,571
67,450	652,852	144,617	211,252	134,085	864,104
-	-	66,832	68,923	2,091	68,923
-	-	66,832	68,923	2,091	68,923
-	-	74	4,000	3,926	4,000
-	-	31,655	50,000	18,345	50,000
-	-	45,000	45,000	-	45,000
-	-	76,729	99,000	22,271	99,000

The accompanying notes are an integral part of this statement.

Alpena-Montmorency-Alcona Educational Service District

SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

For the year ended June 30, 2008

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Program or Award Amount</u>
<u>U.S. Department of Education -(continued)</u>			
Passed through State of Michigan Department of Education -(continued):			
Special Education - Grants to States	* 84.027A		
Special Ed Flowthrough			
Special education - Flow-through 2007/2008		080450 0708	\$ 1,372,726
Special education - Flow-through 2006/2007		070450 0607	1,372,510
Special education - Flow-through 2005/2006		060450 0506	1,356,277
Special Education - Transition services		070490 TS	60,000
			<u>4,161,513</u>
Special Education - Preschool Grants	* 84.173A		
Special Education - Preschool		080460 0708	40,011
Special Education - Preschool		070460 0607	40,199
			<u>80,210</u>
Special Education - Grants for Infants and Families with Disabilities	84.181A		
Early on Michigan		071340 190	70,543
Early on Michigan		061340 190	70,371
			<u>140,914</u>
State Grants for Innovative Programs	84.298		
Title V - Part A Innovative		080250 0708	263
Title V - Part A Innovative		070250 0607	496
Title V - Part A Innovative		060250 0607	953
			<u>1,712</u>
Education Technology	84.318		
Title II - Part D Education Technology		064240-1	299,390
			<u>299,390</u>
Improving Teacher Quality - State Grants	84.367		
Title II Part A Teacher Training		080520 0708	217
Title II Part A Teacher Training		070520 0607	217
Title II Part A Teacher Training		060520 0506	217
			<u>651</u>
Total passed through Michigan Department of Education			<u>4,854,553</u>
Passed through MiBLSi			
Special Education - Grants to States	* 84.027		
Michigan's Integrated Behavior and Learning Support Initiative			
Cohort 3 - 2008		N/A	10,000
			<u>10,000</u>

* - Major Program

Revenue Accrued (Deferred) at July 1, 2007	Prior Year(s) Expenditures	Current Year		Revenue Accrued (Deferred) at June 30, 2008	Total Expenditures
		Receipts	Expenditures		
\$ -	\$ -	\$ 910,700	\$ 1,279,774	\$ 369,074	\$ 1,279,774
450,385	1,159,841	601,716	212,669	61,338	1,372,510
69,366	1,356,277	69,366	-	-	1,356,277
20,000	60,000	20,000	-	-	60,000
539,751	2,576,118	1,601,782	1,492,443	430,412	4,068,561
-	-	36,106	40,011	3,905	40,011
13,104	40,199	13,104	-	-	40,199
13,104	40,199	49,210	40,011	3,905	80,210
8,710	68,268	9,535	2,275	1,450	70,543
889	70,371	889	-	-	70,371
9,599	138,639	10,424	2,275	1,450	140,914
-	-	-	-	-	-
340	425	411	71	-	496
706	817	706	-	-	817
1,046	1,242	1,117	71	-	1,313
51,795	299,390	51,795	-	-	299,390
51,795	299,390	51,795	-	-	299,390
-	-	-	157	157	157
217	217	217	-	-	217
217	217	217	-	-	217
434	434	434	157	157	591
615,729	3,056,022	1,858,323	1,702,880	460,286	4,758,902
-	-	10,000	10,000	-	10,000
-	-	10,000	10,000	-	10,000

The accompanying notes are an integral part of this statement.

Alpena-Montmorency-Alcona Educational Service District

SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

For the year ended June 30, 2008

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Program or Award Amount</u>
<u>U.S. Department of Education -(continued)</u>			
Passed through Western Michigan University:			
Mathematics and Science Partnerships	84.366	N/A	\$ 19,217
NCLB Title II, Part B Mathematics and science		N/A	36,452
NCLB Title II, Part B Mathematics and science			<u>55,669</u>
Passed through Lake Superior State University:			
Improving Teacher Quality - State Grants	84.367		<u>200,000</u>
NCLB Title II Part A		060290-904	<u>200,000</u>
Total U.S. Department of Education			<u>6,013,579</u>
<u>U.S. Department of Health and Human Services</u>			
Passed through State of Michigan Department of Community Health:			
Abstinence Education Program	93.235		
Michigan Abstinence Partnership - 2007		G0501MIAEGP	<u>150,886</u>
			<u>150,886</u>
Medical Assistance Programs	93.778		
Medicaid Outreach Claims		N/A	<u>51,019</u>
			<u>51,019</u>
Total U.S. Department of Health and Human Services			<u>201,905</u>
Total Federal Awards			<u>\$ 6,247,707</u>

Revenue Accrued (Deferred) at July 1, 2007	Prior Year(s) Expenditures	Current Year		Revenue Accrued (Deferred) at June 30, 2008	Total Expenditures
		Receipts	Expenditures		
\$ -	\$ -	\$ 19,217	\$ 19,217	\$ -	\$ 19,217
7,897	16,921	7,897	-	-	16,921
<u>7,897</u>	<u>16,921</u>	<u>27,114</u>	<u>19,217</u>	<u>-</u>	<u>36,138</u>
20,755	110,299	78,638	74,299	16,416	184,598
<u>20,755</u>	<u>110,299</u>	<u>78,638</u>	<u>74,299</u>	<u>16,416</u>	<u>184,598</u>
711,831	3,836,094	2,118,692	2,017,648	610,787	5,853,742
75,444	119,164	107,166	31,722	-	150,886
<u>75,444</u>	<u>119,164</u>	<u>107,166</u>	<u>31,722</u>	<u>-</u>	<u>150,886</u>
-	-	51,019	51,019	-	51,019
<u>-</u>	<u>-</u>	<u>51,019</u>	<u>51,019</u>	<u>-</u>	<u>51,019</u>
75,444	119,164	158,185	82,741	-	201,905
<u>\$ 787,975</u>	<u>\$ 3,968,655</u>	<u>\$ 2,295,575</u>	<u>\$ 2,119,215</u>	<u>\$ 611,615</u>	<u>\$ 6,087,870</u>

The accompanying notes are an integral part of this statement.

Alpena-Montmorency-Alcona Educational Service District

NOTES TO SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

NOTE 1--SIGNIFICANT ACCOUNTING POLICIES.

The accompanying Schedule of Federal Financial Assistance presents the activity of all federal financial assistance programs of the Alpena-Montmorency-Alcona Educational Service District, Alpena, Michigan. The Alpena-Montmorency-Alcona Educational Service District's reporting entity is defined in Note 1 to the District's financial statements. All federal financial assistance received directly from federal agencies as well as federal financial assistance passed through other governmental agencies is included on the schedule.

The Office of Management and Budget OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* established a risk-based approach to determine which Federal programs were major programs. This risk-based approach included consideration of: Current and prior audit experience, oversight by Federal agencies and pass-through entities, and the inherent risk of the Federal program. Major program determination was performed and is defined in Section 520 of the circular.

For the audit period ended June 30, 2008 the Alpena-Montmorency-Alcona Educational Service District's dollar threshold for larger Federal programs, which were regarded as Type A programs, were programs with Federal awards expended during the audit period which exceeded \$300,000. All other Federal programs were regarded as Type B programs. For the year ended June 30, 2008, the Alpena-Montmorency-Alcona Educational Service District qualified as a low-risk auditee as defined in Section 530 of the circular. No federal programs were considered to be high-risk and the determination was made that major programs were all Type A programs to encompass at least 25% of the total federal awards expended. During the year ended June 30, 2008, the Alpena-Montmorency-Alcona Educational Service District expended 81% of its total expenditures of Federal Awards programs audited as Major Programs.

NOTE 2--BASIS OF ACCOUNTING.

The accompanying Schedule of Federal Financial Assistance is presented using the accrual basis of accounting, which is described in Note 1 to the District's financial statements.

NOTE 3--CFDA.

This refers to the Catalog of Federal Domestic Assistance.

NOTE 4--RELATIONSHIP TO GOVERNMENTAL FUND FINANCIAL STATEMENTS.

Revenues from federal sources are reported in the service district's financial statements as follows:

	<u>Federal Revenues</u>
General Fund	\$ 336,718
Special Revenue Funds:	
Special Education Fund	1,763,671
School Service Fund	<u>18,826</u>
Total Federal Revenues	<u>\$2,119,215</u>
Expenditures per Schedule of Federal Financial Assistance	<u>\$2,119,215</u>

Alpena-Montmorency-Alcona Educational Service District

NOTES TO SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

NOTE 5--RECONCILIATION TO MICHIGAN DEPARTMENT OF EDUCATION GRANT SECTION AUDITORS REPORT.

The following shows a reconciliation of current year receipts per the Schedule of Expenditures of Federal Awards to current payments per Michigan Department of Education Form R-7120 and the Cash Management System Grant Auditor Report (GAR):

Agency total current payments per Michigan Department of Education	\$1,875,561
Food donation	
Entitlement commodities	794
Bonus commodities	-
Less state funded school breakfast	-
	<u>\$1,876.355</u>
Current year receipts passed through Michigan Department of Education:	
U.S. Department of Education	\$1,858,323
U.S. Department of Agriculture	<u>18,032</u>
	<u>\$1,876,355</u>

NOTE 6--RECEIPTS.

Current year receipts represent cash/payments-in-kind received from Federal sources during the period July 1, 2007 through June 30, 2008.

NOTE 7--SOURCE DOCUMENTATION.

When possible, project expenditures are vouched to various other supporting documentation, such as MDE Form DS-4044. The amounts reported on MDE R7120, Grant Section Auditors Report, reconcile with the schedule. Instances, if any, where the federal expenditures do not agree with supporting documents, have been reported as a finding.

Alpena-Montmorency-Alcona Educational Service District

REPORT ON PRIOR AUDIT FINDINGS

For the year ended June 30, 2008

Program

Finding

Questioned
Costs

There were no findings or questioned costs noted.



Certified Public Accountants

PHILIP T. STRALEY, C.P.A.
ROBERT D. ILSLEY, C.P.A.
BERNARD R. LAMP, C.P.A.
TERRENCE D. YULE, C.P.A.
MARK L. SANDULA, C.P.A.
JAMES E. KRAENZLEIN, C.P.A./A.B.V., C.V.A.
DONALD C. LEVREN

STRALEY, ILSLEY & LAMP P.C.

2106 U.S. 23 SOUTH, P.O. BOX 738
ALPENA, MICHIGAN 49707
TELEPHONE (989) 356-4531
FACSIMILE (989) 356-0494

TAX, AUDIT AND BUSINESS CONSULTANTS

RETIRE
GORDON A. NETHERCUI, C.P.A.
CARL F. REITZ, C.P.A.
WARREN W. YOUNG, C.P.A.

To the Board of Education
Alpena-Montmorency-Alcona
Educational Service District
Alpena, Michigan

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS. We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Alpena-Montmorency-Alcona Educational Service District, Alpena, Michigan, as of and for the year ended June 30, 2008, which collectively comprise the Alpena-Montmorency-Alcona Educational Service District, Alpena, Michigan's basic financial statements and have issued our report thereon dated October 2, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Alpena-Montmorency-Alcona Educational Service District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Alpena-Montmorency-Alcona Educational Service District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Alpena-Montmorency-Alcona Educational Service District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Alpena-Montmorency-Alcona Educational Service District's financial statements that is more than inconsequential will not be prevented or detected by the Alpena-Montmorency-Alcona Educational Service District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Alpena-Montmorency-Alcona Educational Service District's internal control.

Our consideration of internal control over financial reported was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Alpena-Montmorency-Alcona Educational Service District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We noted certain matters that we reported to management of Alpena-Montmorency-Alcona Educational Service District, Alpena, Michigan, in a separate letter dated October 2, 2008.

This report is intended solely for the information and use of management, the Board of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

Straley, Ilsley & Lamp P.C.

October 2, 2008



Certified Public Accountants

STRALEY, ILSLEY & LAMP P.C.

2106 U.S. 23 SOUTH, P.O. BOX 738

ALPENA, MICHIGAN 49707

TELEPHONE (989) 356-4531

FACSIMILE (989) 356-0494

TAX, AUDIT AND BUSINESS CONSULTANTS

PHILIP T. STRALEY, C.P.A.
ROBERT D. ILSLEY, C.P.A.
BERNARD R. LAMP, C.P.A.
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WARREN W. YOUNG, C.P.A.

To the Board of Education
Alpena-Montmorency-Alcona
Educational Service District
Alpena, Michigan

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND SUPPLEMENTAL SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE.

Compliance

We have audited the compliance of Alpena-Montmorency-Alcona Educational Service District, Alpena, Michigan, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. Alpena-Montmorency-Alcona Educational Service District, Alpena, Michigan's, major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Alpena-Montmorency-Alcona Educational Service District's management. Our responsibility is to express an opinion on Alpena-Montmorency-Alcona Educational Service District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB A-133 Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Alpena-Montmorency-Alcona Educational Service District, Alpena, Michigan's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Alpena-Montmorency-Alcona Educational Service District, Alpena, Michigan's compliance with those requirements.

In our opinion, Alpena-Montmorency-Alcona Educational Service District, Alpena, Michigan, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal financial assistance programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of the Alpena-Montmorency-Alcona Educational Service District, Alpena, Michigan, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Alpena-Montmorency-Alcona Educational Service District, Alpena, Michigan's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of Alpena-Montmorency-Alcona Educational Service District, Alpena, Michigan's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Federal Financial Assistance

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Alpena-Montmorency-Alcona Educational Service District, Alpena, Michigan, as of and for the year ended June 30, 2008, which collectively comprise the Alpena-Montmorency-Alcona Educational Service District, Alpena, Michigan's basic financial statements and have issued our report thereon dated October 2, 2008. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Alpena-Montmorency-Alcona Educational Service District, Alpena, Michigan's, basic financial statements. The accompanying schedule of Federal Financial Assistance is presented for the purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of management, the Board of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

Straley, Ishay & Lamp P.C.

October 2, 2008

Alpena-Montmorency-Alcona Educational Service District

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2008

A. Summary of Audit Results

1. The Auditors' report expresses an unqualified opinion on the basic financial statements of the Alpena-Montmorency-Alcona Educational Service District.
2. No reportable conditions relating to the audit of the financial statements are reported in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.
3. The results of our tests disclosed no instances of noncompliance, or other matters material to the financial statements of the Alpena-Montmorency-Alcona Educational Service District that are required to be reported under Government Auditing Standards.
4. No reportable conditions relating to the audit of the major federal award programs are reported in the Report on Compliance with Requirements Applicable to each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133 and Supplemental Schedule of Federal Financial Assistance.
5. The Auditors' Report on Compliance for Major Programs expresses an unqualified opinion.
6. The Auditors' report disclosed no instances of findings relative to the major federal award programs required to be reported under Section 510(A) of OMB Circular A-133.
7. Programs tested as major programs:

U.S. Department of Education – Special Education Cluster
 Special Education – Grants to States CFDA #84.027
 Special Education – Preschool Grants CFDA #84.173
8. The threshold for distinguishing Type A and Type B Programs was \$300,000.
9. Alpena-Montmorency qualified as a low-risk auditee under criteria in Section 530 of (OMB) Circular A-133.

B. Summary of Findings Relating to the Financial Statements.

There were no findings relating to the financial statements which are required to be reported under generally accepted government auditing standards.

C. Findings and Questioned Costs of Major Federal Award Programs.

There were no findings or questioned costs related to the major federal award programs for the year ended June 30, 2008.

Alpena-Montmorency-Alcona Educational Service District

CORRECTIVE ACTION PLAN

For the year ended June 30, 2008

A Corrective Action Plan is not required since there are no findings or questioned costs.

Alpena-Montmorency-Alcona Educational Service District

SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE PROVIDED TO SUB RECIPIENTS

For the year ended June 30, 2008

<u>Sub recipient</u>	<u>Program</u>	<u>Project Number</u>	<u>C.F.D.A. Number</u>	<u>Amount Awarded</u>
Cheboygan Youth Center	ABSTINENCE 2007	20072088-00	93.235	\$ 7,500
District Health # 4	ABSTINENCE 2007	20072088-00	93.235	63,915
The Hub in Onaway	ABSTINENCE 2007	20072088-00	93.235	22,327
Alpena Boys and Girls Club	ABSTINENCE 2007	20072088-00	93.235	7,500
Big Brothers	ABSTINENCE 2007	20072088-00	93.235	12,431
Totals				<u>\$ 113,673</u>

Due to (from) sub recipient at June 30, 2007	Prior Year(s) expenditures	Current year		Due to (from) sub recipient at June 30, 2008
		Cash Transferred	Reported Expenditures	
\$ 833	\$ 7,500	\$ 2,833	\$ 2,000	\$ -
2,339	63,915	19,423	17,084	-
-	22,327	5,656	5,656	-
-	7,500	2,000	2,000	-
690	12,431	3,840	3,150	-
<u>\$ 3,862</u>	<u>\$ 113,673</u>	<u>\$ 33,752</u>	<u>\$ 29,890</u>	<u>\$ -</u>



Certified Public Accountants

STRALEY, ILSLEY & LAMP P.C.

2106 U.S. 23 SOUTH, P.O. BOX 738
ALPENA, MICHIGAN 49707
TELEPHONE (989) 356-4531
FACSIMILE (989) 356-0494

TAX, AUDIT AND BUSINESS CONSULTANTS

PHILIP T. STRALEY, C.P.A.
ROBERT D. ILSLEY, C.P.A.
BERNARD R. LAMP, C.P.A.
MARK L. SANDOLA, C.P.A.
TERRENCE D. YULE, C.P.A.
JAMES E. KRAENZLEIN, C.P.A., C.M.A.
DONALD C. LEVREN

RETIRED
CORDON A. NETHERCUT, C.P.A.
CARL F. REITZ, C.P.A.
WARREN W. YOUNG, C.P.A.

To the Board of Education
Alpena-Montmorency-Alcona Educational Service District
Alpena, Michigan

We have completed our engagement of the audit of the financial statements of the Alpena-Montmorency-Alcona Educational Service District (the "District") for the year ended June 30, 2008. In addition to our audit report, we are providing the following:

Letter of increased audit communications as prescribed by Statement on Auditing Standards (SAS) 112

Letter of required audit communication, as prescribed by SAS 114

Other recommendations and informational comments which impact the District

	<u>Page</u>
Internal Control Communications (SAS 112 Letter)	2
Audit Communications (SAS 114 Letter)	4

We commend the School for its excellent recordkeeping system and appreciate the opportunity to serve the Alpena-Montmorency-Alcona Educational Service District. If you have any questions, or if we can be of further service, please do not hesitate to contact us.

Straley, Ilsley & Lamp P.C.

October 2, 2008



Certified Public Accountants

STRALEY, ILSLEY & LAMP P.C.

2106 U.S. 23 SOUTH, P.O. BOX 738
ALPENA, MICHIGAN 49707
TELEPHONE (989) 356-4531
FACSIMILE (989) 356-0494

TAX, AUDIT AND BUSINESS CONSULTANTS

PHILIP T. STRALEY, C.P.A.
ROBERT D. ILSLEY, C.P.A.
BERNARD R. LAMP, C.P.A.
MARK L. SANDULA, C.P.A.
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GORDON A. NETHERCUT, C.P.A.
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WARREN W. YOUNG, C.P.A.

INTERNAL CONTROL COMMUNICATIONS

To the Board of Education
Alpena-Montmorency-Alcona Educational Service District
Alpena, Michigan

New auditing rules have resulted in changes in the communications that we are required to provide following our audit. These rules require us to more formally communicate matters we note about your accounting procedures and internal controls. While we have always provided our observations in these areas as part of our audit, we are now required to tell you about more items than we may have in the past and to communicate them in writing.

The new auditing standard (Statement on Auditing Standards No. 112, referred to as SAS 112) requires us to inform you about any matters noted in your accounting procedures or internal controls that the new standard defines as a "significant deficiency." The new threshold for a significant deficiency is a low one - a significant deficiency is any flaw that creates more than a remote risk of errors in your financial statements that could matter to a user of the statements. Matters that may be immaterial to the financial statements still may be classified by the new auditing standards as a significant deficiency.

In the past, we have sometimes provided comments of this nature as part of a draft meeting with management. Only material internal control issues have been included in our letter. Under these new rules, we are obligated to communicate these matters in writing to all individuals involved in overseeing strategic direction and accountability for your operations, including the county board members in addition to our communications with management. This communication is intended to comply with the requirements of the new auditing standards.

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Alpena-Montmorency-Alcona Educational Service District as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered Alpena-Montmorency-Alcona Educational Service District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Educational Service District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Educational Service District's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

We wish to thank the staff of the Alpena-Montmorency-Alcona Educational Service District for their assistance during the audit.

This report is intended solely for the information and use of the management, the Board of Education, and others within the organization, and the State of Michigan Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the opportunity to serve the Alpena-Montmorency-Alcona Educational Service District. If you have any questions, or if we can be of further service, please do not hesitate to contact us.

Very truly yours,

Straley, Iisley & Lamp P.C.

October 2, 2008



Certified Public Accountants

STRALEY, ILSLEY & LAMP P.C.

2106 U.S. 23 SOUTH, P.O. BOX 738
ALPENA, MICHIGAN 49707
TELEPHONE (989) 356-4531
FACSIMILE (989) 356-0494

PHILIP T. STRALEY, C.P.A.
ROBERT D. ILSLEY, C.P.A.
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JAMES E. KRAENZLEIN, C.P.A., C.V.A.
DONALD C. LEVREN

TAX, AUDIT AND BUSINESS CONSULTANTS

RETIREE
GORDON A. NETHJERCUT, C.P.A.
CARL E. REITZ, C.P.A.
WARREN W. YOUNG, C.P.A.

AUDIT COMMUNICATIONS

To the Board of Directors
Alpena-Montmorency-Alcona Educational Service District
Alpena, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Alpena-Montmorency-Alcona Educational Service District for the year ended June 30, 2008, and has issued our report thereon dated October 2, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibilities under U.S. Generally Accepted Auditing Standards and Government Auditing Standards.

As stated in our engagement letter dated August 7, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of Alpena-Montmorency-Alcona Educational Service District. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed test of Alpena-Montmorency-Alcona Educational Service District's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on September 4, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Alpena-Montmorency-Alcona Educational Service District are described

in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2008. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the depreciation expense is based on management's assumptions about the useful lives of its fixed assets. We evaluated the key factors and assumptions used to develop the depreciation expense in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 2, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Eleven new auditing standards have been issued that require significant changes in how audits are performed. Similar to the Sarbanes-Oxley rules that impacted publicly held corporations, these rules are intended to help audited entities strengthen their internal controls. In brief, these new rules require all auditors to:

- Obtain a deeper understanding of the design and operation of internal control
- Assess the effectiveness of internal control
- Obtain corroborating evidence that the understanding is correct and the assessment is appropriate (i.e., inspection of documents, observation of procedures, or inquiry)
- Consider "what could go wrong" in the financial statement process (evaluate the risks of financial statement errors)
- Link the results to specific further audit procedures
- Communicate a summary of the results of the auditor's work to those charged with governance (the Board of Education)

As you can see, auditors will spend significantly more time working with all aspects of your internal control. These new rules are not limited to the public sector – they will apply to any organization that obtains an audit (nonprofit organization, private company, etc.). These new rules have impacted audited organizations in two ways: your finance staff has incurred more time and effort in preparation for the audit, and the audit process has required additional time.

Other Matters

1. Recent Pronouncements. The Governmental Accounting Standards Board and Michigan Department of Education, in its continuing process of updating the accounting principles that all governments must adhere to, has issued the following recent pronouncements that will have an impact on the way the Alpena-Montmorency-Alcona Educational Service District maintains its financial records:
 - A. **GASB Statement No. 43 - Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.** This statement establishes uniform reporting standards for other postemployment benefit plans. The financial statements focus on reporting current financial information about plan net assets and required note disclosures include a brief plan description, a summary of significant accounting policies, and information about contributions and legally required reserves. The requirements of this statement are effective for financial statements of the Educational Service District for the year ended June 30, 2009.
 - B. **GASB Statement No. 45 - Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.** This statement will require governmental units to record the cost of benefits (such as health insurance, life insurance, etc) in the periods when the related services are received by the employer if these benefits are not provided for through a pension plan. This will require the Educational Service District to accrue and report an actuarially computed liability for any future postemployment benefit other than pensions. The requirements

of this statement are effective for financial statements of the Educational Service District for the year ended June 30, 2010.

- C. GASB Statement No. 49 Accounting and Financial Reporting for Pollution Remediation Obligations.** This statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. This will require the Educational Service District to capitalize pollution remediation outlays in the future. The requirements of this statement are effective for financial statements of the Educational Service District for the year ended June 30, 2009.
- D. GASB Statement No. 51 Accounting and Financial Reporting for Intangible Assets.** This statement establishes consistent standards as to whether intangible assets including easements, timber rights, and computer software should be considered capital assets for financial reporting purposes. The requirements of this statement are effective for financial statements of the Educational Service District for the year ended June 30, 2010.
- E. GASB Statement No. 52 Land and Other Real Estate Held as Investments by Endowments.** This statement more appropriately reports the resources available in endowments and more closely aligns financial reporting with the objectives of the endowments. Reporting land and other real estate held as investments at fair value enhances user's ability to meaningfully evaluate an entity's investment decisions and performance. The requirements of this statement are effective for financial statements of the Educational Service District for the year ended June 30, 2009.

2. Issues Likely to Impact Schools.

- A. Government Deposit Insurance.** Under Michigan Law, governmental units, including school districts, are directed and limited where they may invest or deposit public funds. Depository institutions such as banks, credit unions, or savings and loans may offer FDIC insurance coverage.

The insurance coverage of a school's accounts depends upon the type of deposit. All time and savings deposits (which include NOW accounts, CD's, money market deposit accounts, and other interest-bearing accounts) held by a school in a particular insured depository institution within the State are added together and insured up to \$100,000. Separately, all demand deposits (checking accounts) held in the same insured depository institution within the same State are added together and insured up to \$100,000. A proposal to increase FDIC coverage to \$250,000 is pending in Congress. Special rules apply to funds that are required to be set aside for debt owed to holders of notes or bonds – additional insured coverage may be available for the beneficial interest of each bondholder.

Recent market events have indicated that certain financial institutions, including some within the Midwest region, may be experiencing financial distress. In the event of a regulatory takeover of a financial institution, uninsured or underinsured depositors may not receive all of their funds back after the regulatory takeover.

We encourage the school to perform the necessary due diligence to assure itself that it has the protection and coverage it desires to protect its public funds.

B. IRS 403(b) Final Regulations (Tax Sheltered Annuities). For the first time in 40 years, the IRS has published comprehensive 403(b) guidance in the form of final regulations. The regulations require much more district involvement than was necessary in the past. The regulations also require a written plan and generally place the burden on the district to make sure that the plan is administered in accordance with the terms of what will become, for many districts, their first 403(b) plan document.

These regulations are generally effective for taxable years beginning after December 31, 2008. Plan documents should be in place December 31, 2008 to be implemented as of January 1, 2009.

The document must contain eligibility rules, benefits available, limitations, allowable vendors, and time and form distributions.

The document must allocate administrative and compliance responsibilities to the employer and/or designated third parties. The plan may not allocate compliance responsibilities to the participants.

We wish to thank the staff of the Alpena-Montmorency-Alcona Educational Service District for their assistance during the audit.

This report is intended solely for the information and use of Alpena-Montmorency-Alcona Educational Service District Board of Education, Michigan Department of Education, Management, and others within the governmental unit and is not intended to be and should not be used by anyone other than these specified parties.

We commend the Educational Service District for its excellent recordkeeping system and appreciate the opportunity to serve the Alpena-Montmorency-Alcona Educational Service District. If you have any questions, or if we can be of further service, please do not hesitate to contact us.

Very truly yours,

Straley, Itsky & Lamp P.C.

October 2, 2008